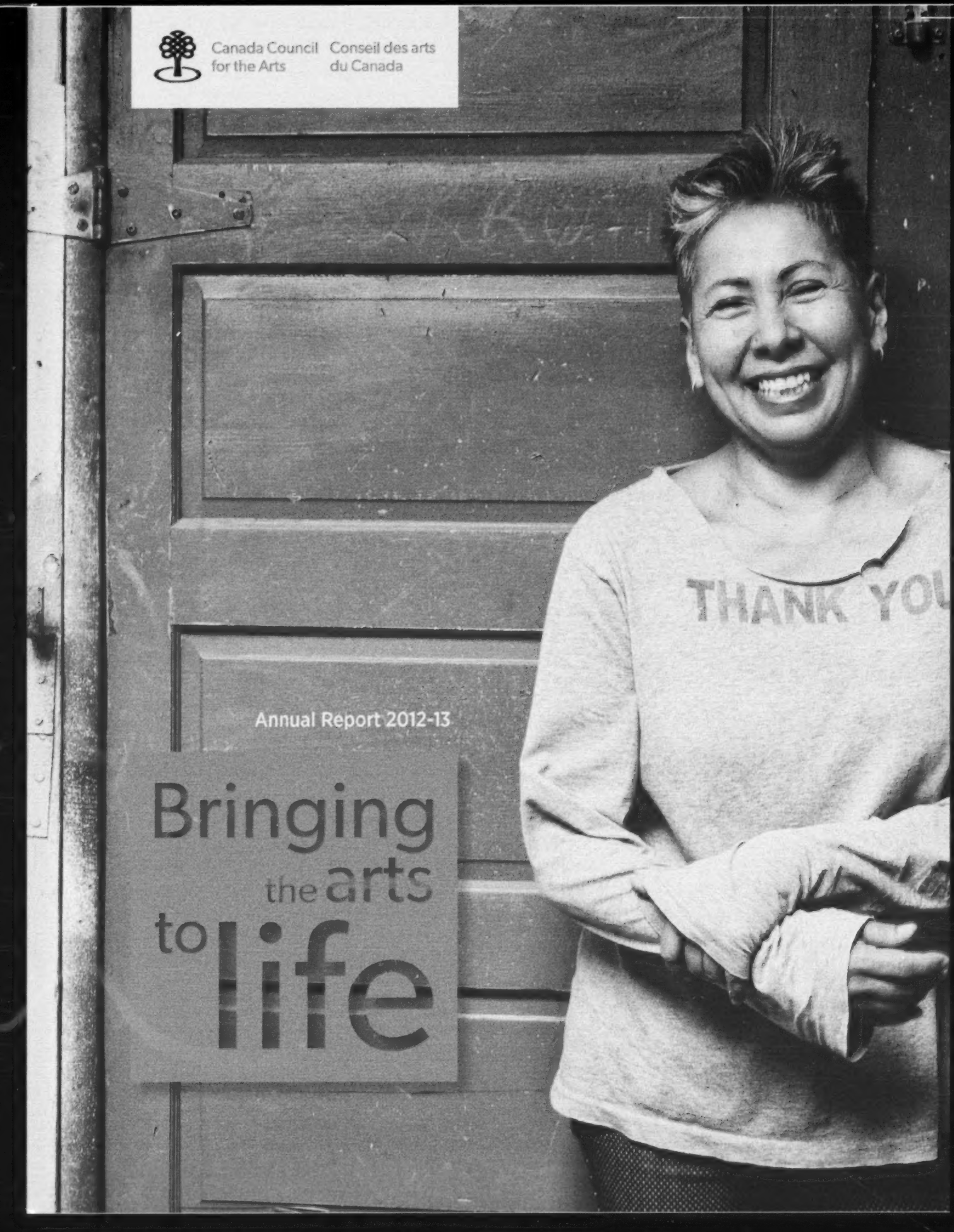
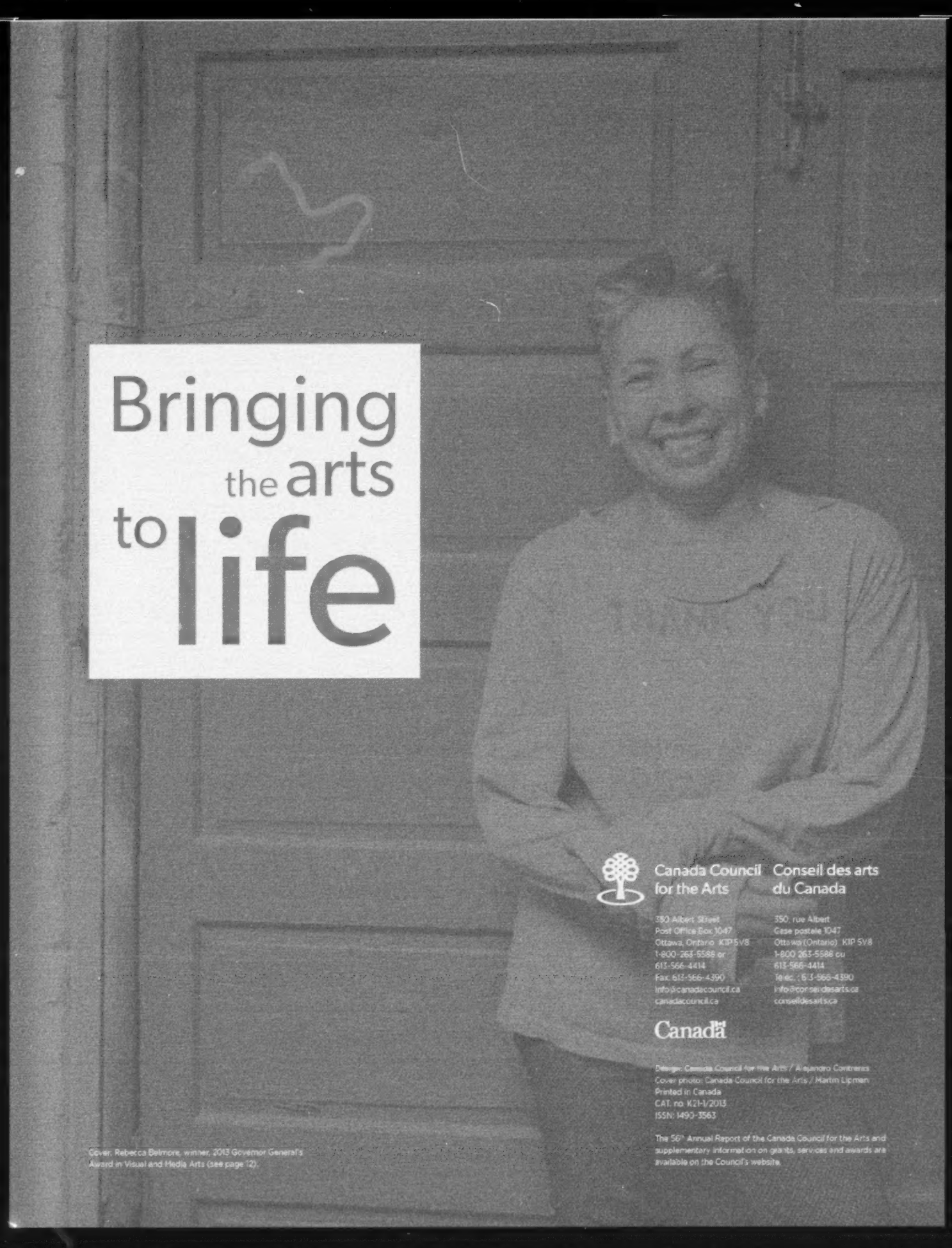

Canada Council for the Arts
Conseil des arts du Canada
THANK YOU
Annual Report 2012-13
Bringing the arts to life

Bringing the arts to life



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Cover: Rebecca Belmore, winner, 2013 Governor General's Award in Visual and Media Arts (see page 12).

For over 50 years, the Canada Council for the Arts, Canada's national arts funder, has been contributing to a vibrant arts scene that enriches the lives of all Canadians.

The Council offers a broad range of grants and services to professional Canadian artists and arts organizations. As a result of our funding, Canadians across the country have access to the arts in the communities where they live.

The Council raises public awareness and appreciation of the arts through its communications, research and arts promotion activities. Its prizes and fellowships celebrate creativity by recognizing exceptional Canadians in the arts, humanities and sciences.

The Canadian Commission for UNESCO operates under the general authority of the Council.

The Canada Council is governed by an 11-member Board. Members of the Board and the Director/CEO are appointed by the Governor-in-Council. The Council's juries or peer assessment committees are made up of artists and arts professionals from across the country. The Council works closely with federal, provincial, territorial and municipal arts and cultural agencies and departments.

As a federal Crown corporation, the Canada Council reports to Parliament through the Minister of Canadian Heritage. Its annual budget allocation from Parliament is supplemented by endowment income, donations and bequests.

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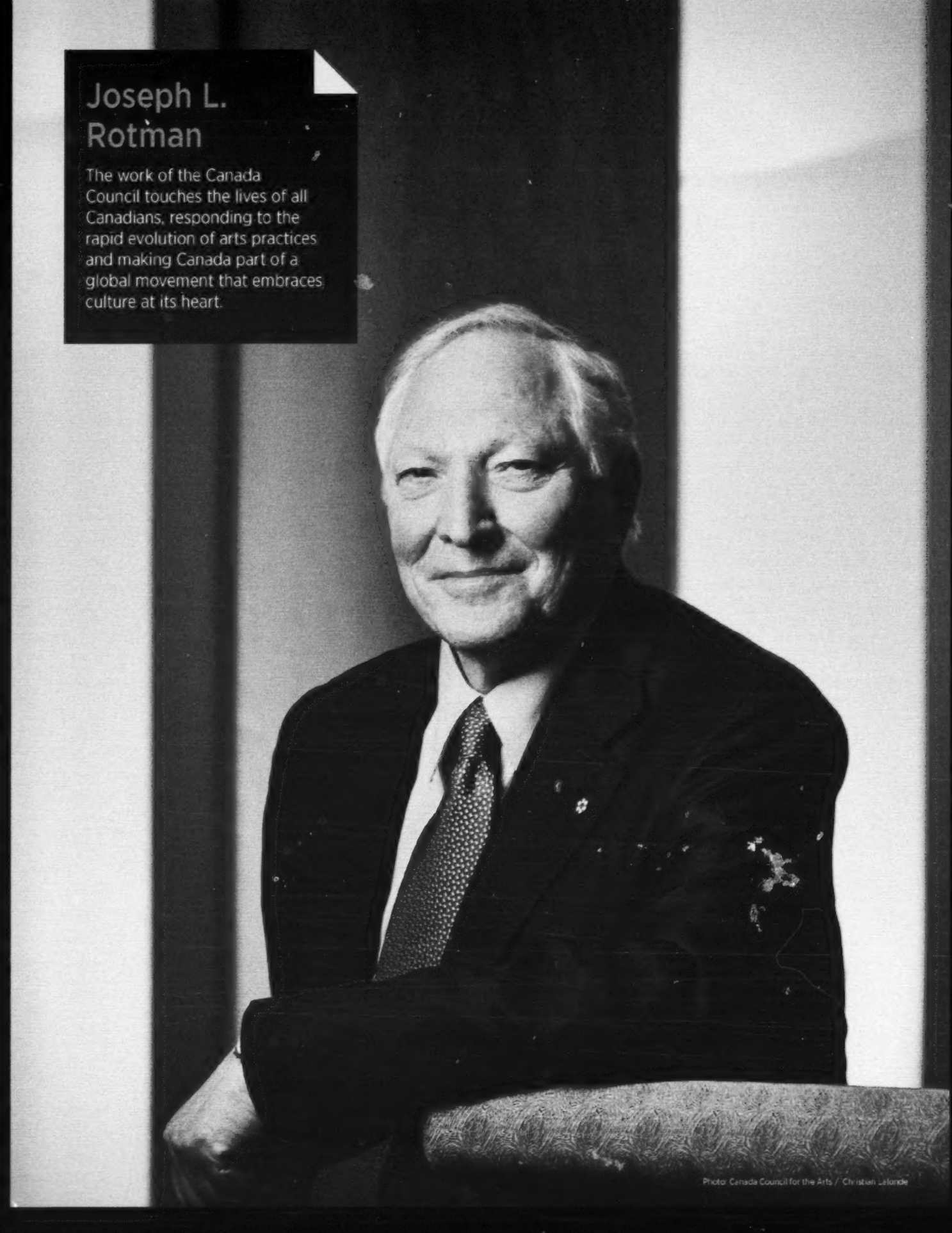


Joseph L. Rotman

The work of the Canada Council touches the lives of all Canadians, responding to the rapid evolution of arts practices and making Canada part of a global movement that embraces culture at its heart.

Photo: Canada Council for the Arts / Christian Lelonde

Message from the Chair

The Canada Council for the Arts is a flagship organization with a proud history. It has helped tens of thousands of Canadian artists bring the arts to life for more than half a century, and its work touches the lives of all Canadians, responding to the rapid evolution of arts practices and making Canada part of a global movement that embraces culture at its heart.

Last October, at our annual public meeting, arts consultant Richard Evans urged both funders and practitioners to enlarge their civic footprint. His presentation focused on the complex and rich notion of public engagement, reinforcing the discussion paper on the same topic the Council had launched earlier in the day. There was a strong sense at the meeting the Council is moving in the right direction in its focus on building a more arts-engaged nation – a nation where cultural expression is a valued part of everyone's life.

The conversation about public engagement underlines the arts sector's vital role in Canada's social and economic well-being. It is a central component of the Canada Council's strategic plan, *Strengthening Connections 2011-16*, and a particular interest and priority for the Council's Board of Directors.

Last year Board members were active on many fronts beyond their usual Board and Committee responsibilities. Simon Brault, our Vice-Chair, played a major role in championing the public engagement conversation, including speaking engagements in Canada, France and Greece. Barbara Burley represented the Council at the signing of a new partnership with the province of Nova Scotia to support diverse creative communities in accessing funding and helping develop the province's creative economy. Luc LaRochelle participated at a roundtable organized by Business for the Arts, a Council partnership that brings together public and private sector arts funders. Anna Porter spoke at the International Festival of Authors in Toronto; Rosemary Vodrey spoke at the 100th anniversary celebrations of the Winnipeg Art Gallery; Howard Jang, Susan Knight, and Phil Ponting represented the Council at tri-level meetings of arts funders in their respective provinces; and David McKay attended a mock jury and outreach session for New Brunswick artists in Saint John.

Throughout the year Board governance responsibilities were concentrated on sound management practices, cost-effectiveness, accountability (including improved performance measurement) and transparency. Year 2 of the roll-out of the strategic plan showed steady progress on the Council's vision for the future, namely that all Canadians can experience and actively participate in the arts, regardless of their age, economic circumstances, or geographic location.

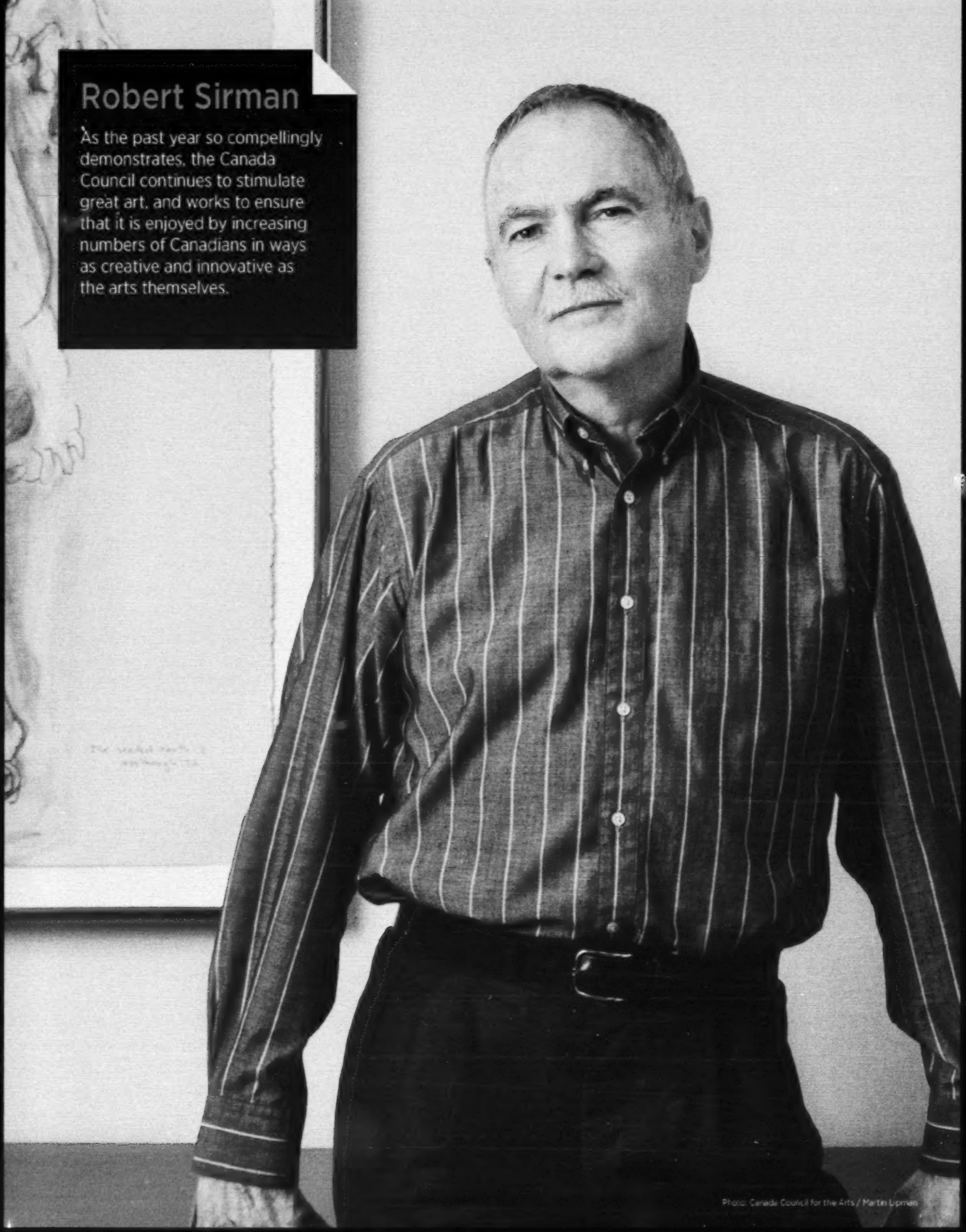
All Board decisions continue to take account of the financial context in which the Council operates, and we are keenly conscious of the need to be vigilant. The Council's stable budget allocation is testimony to the effective management of its affairs.

The Board will continue to ensure that the confidence placed in the Canada Council by the Government – and Canadians – is well-placed, that Council continues to play a leadership role nationally, and that its work continues to be relevant to Canadians and lays a solid foundation for the future.

I would like to take this opportunity to salute departing Board member Philip Ponting (Alberta), whose term ended in the past year, and to welcome new members Howard Jang (B.C.) and Brenda Stehelin (Yukon).

Finally, I am delighted to continue to work with my fellow board members for another term as Chair. This term promises to be particularly eventful: while continuing to implement our strategic vision, we will mark two significant milestones in 2017 – the 60th anniversary of the Canada Council and the 150th anniversary of Canada. What a perfect opportunity to highlight how the arts – and the Canada Council for the Arts – contribute to the strength and vitality of the nation.

Joseph L. Rotman



Robert Sirman

As the past year so compellingly demonstrates, the Canada Council continues to stimulate great art, and works to ensure that it is enjoyed by increasing numbers of Canadians in ways as creative and innovative as the arts themselves.

Photo: Canada Council for the Arts / Martin Lipman

Message from the Director & CEO

Last year was a time of tremendous convergence for the Canada Council. Many years of strategic planning, consultation, research and analysis came together in a multi-faceted change agenda with long-term implications for both the Council and the sector – and nation – it serves.

Highlights included: the release of a discussion paper on Public Engagement in the Arts; a multi-disciplinary review of operating grant programs; a significant increase in support to national and international market access; a review of the Flying Squad program; policy changes that allow for greater movement of funds in annual and multi-year competitions; a review of the Public Lending Right program; establishing a working group to study the Art Bank's mandate and business model; finalizing plans for Council's move to new offices in 2013-14; and a host of technology-related initiatives, from selecting the vendor for a new CRM (customer relationship management) system to redesigning the Council's website, digitizing Council records, integrating social media, and expanding the use of iPads for juries and Board meetings.

In the midst of all of this the Council delivered more than $150 million in grants and payments to artists and arts organizations in some 2,000 communities across Canada, awarded upwards of 200 prizes and fellowships, moved forward on its equity and performance measurement agendas, lent historically significant stringed instruments from the Musical Instrument Bank to 18 young musicians, rented over 3,500 contemporary Canadian art works from the Canada Council Art Bank, and contributed to Canada's international agenda through the work of the Canadian Commission for UNESCO.

That so much could be achieved during a period of unprecedented artistic, demographic, technological and economic change is a testament to the competence, dedication and good will of literally thousands of people, from Council's Board and staff to the artists and administrators, volunteers and other funders Council works with throughout the year.

I am particularly proud of the generosity of spirit reflected in Council's participation in the Government of Canada Workplace Charitable Campaign, where for three years running the Council's fewer than 250 staff have personally contributed over $90,000 annually, with a participation rate that exceeds 100%.

It is this sense of dedication and generosity that marks the work culture of the Canada Council, and ensures that year after year the Council is able to stay on top of an increasingly complex set of challenges.

Double-digit returns on the Council's endowed investments along with a stable Parliamentary appropriation, strict spending controls and continued compliance with fiscal restraint guidelines helped the Council post an operating surplus of $6.0 million, a significant improvement on the previous year's deficit of $6.3 million.

The Council's relevance and impact depend on its capacity to support professional arts practice in Canada, and as arts practices evolve, so too must the Council. This requires embracing strategies that balance stability and continuity with relevance and renewal, the needs of individual practitioners with the health of the sector as a whole, the catalytic energy of communities big and small and the connective capacity unique to a federal funder.

As the past year so compellingly demonstrates, the Canada Council continues to stimulate great art, and works to ensure that it is enjoyed by increasing numbers of Canadians in ways as creative and innovative as the arts themselves.

Robert Sirman

Management's Discussion
& Analysis

Our goal: a vital and diverse arts sector that enriches the lives of Canadians.

Management's Discussion & Analysis

The Canada Council for the Arts works to strengthen arts practice and connect the public to the arts. Its strategic and corporate plan, *Strengthening Connections: 2011-16*, highlights five strategic results that together support its ultimate goal: a vital and diverse arts sector that enriches the lives of Canadians. The *2012-13 Annual Report* aims to demonstrate our progress towards this goal by charting the impact, and not just outputs, of the Council's funding on artists, arts organizations and, ultimately, the Canadian public.

Management's Discussion & Analysis introduces new performance measures that will continue to evolve in the coming years as the Council builds its capacity to demonstrate results through new tools such as an updated grants management system and CADAC (Canadian Arts Data).

In interpreting these measures, however, it is important to recognize that the Council's investment is part of a larger system of support and influence, including public and private funders as well as earned revenues. It contributes to results in varying degrees and measures can be affected by factors outside of its control.

At a glance

The Council's five strategic results

1. The Council has reinforced its commitment to individual artists, working alone or collaboratively, as the core of artistic practice.
2. Arts organizations have strengthened capacity to underpin artistic practices and enrich their presence in all parts of the country and abroad.
3. The Council has demonstrated its leadership role in promoting equity as a critical priority of Canada's artistic aspirations.
4. The Council has extended its reach across the country and abroad, and leveraged additional resources and a greater societal investment in the arts through partnerships.
5. The Council has enhanced its capacity to support the arts and implement change by strengthening its structure, staffing and services.

The themes of public engagement in the arts, new technologies and synergy are interwoven throughout these results and all of the Council's work.

$181.2 million
total parliamentary appropriation

$153.4 million
allocated to grants, prizes and payments

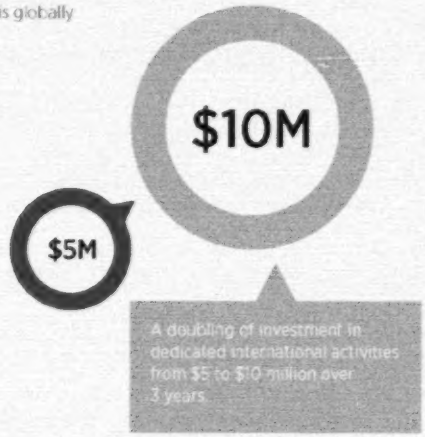
1,016
first-time recipients (artists and arts organizations, representing 24% of all recipients)

629
peer assessors

A number of major activities over the past year have advanced the strategic directions outlined in Strengthening Connections

The arts marketplace

A multi-year strategy to ensure that the Canadian arts sector is globally connected.



Public engagement in the arts

The Council raised awareness of the critical role of public engagement in the arts by launching a dialogue with its stakeholders about what engagement means and how to foster more meaningful public connections with the arts.

Visit: **www.canadacouncil.ca/public_engagement**

Review of support to organizations

Two critical aspects of support to arts organizations were reviewed: operating grants (representing approximately 66% of the Council's granting budget, supporting 1,000 organizations) and the Flying Squad, a program to support administrative capacity in the arts sector. The review will result in a more holistic approach leading to a strategic, relevant and sustainable funding system with more flexibility to respond to change, against a backdrop of a stable parliamentary appropriation and growth in the sector.

Operating environment

The Canadian and world economies continue to be volatile, with major turmoil in European markets and an American economy that is recovering at an uneven pace.

Arts funding levels across the country vary, with some increases at the municipal level and modest fluctuations at the provincial/territorial level. Current trends include local crowdfunding platforms, more matching programs for endowments and leveraging of new funds from the private sector. The Council's international counterparts have also seen changes over the past year, including major funding cuts and restructurings in some European nations and a new cultural policy in Australia.

Internationally, public engagement and the role of public funders in response to increasing diversity have been major topics of discussion in the arts sector. The Canadian arts sector, as with other sectors, is increasingly exploring new markets and new digital means of distribution.

Mobile and interactive technologies continue to influence arts practices, and social media and data mining are becoming increasingly important for engagement and reporting.

ULTIMATE OUTCOME & STRATEGIC IMPACT

A vital and diverse arts sector that enriches the lives of Canadians

Canadians across the country engage in the arts in many ways and value the role that the arts play in their lives and communities. The Canada Council contributes to this engagement by supporting the creation, production and dissemination of a wide variety of artistic experiences. It also contributes to the economic impacts of the sector through the leveraging effect of its grants and services. The Council's support is part of a larger system of public and private funding for the arts sector, and in particular, for arts organizations.

Volunteering in the arts and community value[i]

764,000

Canadians volunteered with arts organizations in 2010

99% of all arts and culture volunteers in Canada indicated that they volunteer in order to make a contribution to their communities.

Quality of life and public participation in the arts[ii]

9.2 of 10

Canadians believe that the arts and culture make communities a better place to live.

9.0 of 10

Canadians believe that exposure to arts and culture is important to individual well-being.

8.3 of 10

Canadians attended at least one type of live performance or arts event last year.

6.6 of 10

Canadians feel that live arts and cultural events are important for quality of life and for families.

Results

Individual Artists

Reinforce the Council's commitment to individual artists, working alone or collaboratively, as the core of artistic practice in Canada.

Through grants, payments, prizes and services, the Council advances artists' careers, supports risk-taking and recognizes exceptional artistic achievements.

At a glance

The Council supported

20,355

artists for a wide range of activities, including research, creation, professional travel, market development and payments for the presence of books in public libraries.

The Public Lending Right program registered

5,176

new titles. Overall, the average growth in eligible titles over the last three years is 3.88%.

The Council's promotion of prize and fellowship winners via social media:

3.4 million

views on Twitter and over 100 million views in traditional and online news sources.

AWARD-WINNING ARTISTS ON VIDEO

This year, the Canada Council partnered with the Independent Media Arts Alliance (IMAA) to commission media artists to create video profiles of the seven winners of the Governor General's Awards in Visual and Media Arts (GGAVMA). Available on multiple platforms, the videos were also promoted by the IMAA, through social media and communication with its membership, by the various production centres across the country, and by the media artists themselves. The partnership was a vibrant illustration of how investing in artists helps bring the arts to larger audiences.

Top: still from video on GGAVMA winner Rebecca Belmore by Danielle Sturk. Bottom: still from video on GGAVMA winner William MacGillivray by Eva Madden.

The Canada Council's direct support to artists

Number of recipients

	2012	2013
Total grants to individual artists	2,013	1,925
Total support to individual artists*	**20,157**	**20,335**

Total funding

(in thousands of dollars)	2012	2013
Total grants to individual artists	$ 21,871	$ 20,345
Total support to individual artists*	**$ 35,226**	**$ 32,875**

*Includes Public Lending Right program, endowments and prizes

Trend analysis

The total dollar support to individuals has decreased slightly over the period of the strategic plan while the number of recipients has increased slightly.

Organizational support to individual artists

In addition to direct granting support, individual artists are employed and paid professional fees by organizations receiving Canada Council operating funding, which provide an infrastructure for creation, production and dissemination.[iii]

The Canada Council's indirect support of artists

Total number of artists paid artists' fees

2011	2012	
38,698	38,952	↑
3-year average 37,915		+ 0.7%

Total number of artists employed

2011	2012	
2,102	2,106	↑
3-year average 2,097		+ 0.2%

Trend analysis

The number of independent artists receiving fees for their artistic work increased slightly over the past two years, as reported by a standard sample of Canada Council-funded operating organizations. During the same period, the number of artists employed by arts organizations remained relatively stable. (Artists may receive fees from, or be employed by, more than one arts organization.)[iii]

THE WORLD STAGE

The Canada Council is helping Canadian talent to shine on the world stage. In 2012-13 it launched a three-year focus on market access that includes additional grant funding, more participation in conferences and showcase events, and delegations to new markets, such as in the Asia-Pacific region (additional $5 million total new investment). The Council is also stepping up its communications and consultations with the arts community to find out how best to support artists to succeed abroad.

With the Council's support, A Tribe Called Red brought its unique mix of traditional pow wow vocals and drumming and cutting-edge electronic music to two of the world's biggest music events: WOMEX World Music Expo in Thessaloniki, Greece (Oct. 2012), and the Association of Performing Arts Presenters in New York City (Jan. 2013). Photo: Eva Blue (Igloofest 2013, Montreal)

Results

Arts Organizations

Arts organizations have strengthened capacity to underpin artistic practices and enrich their presence in all parts of the country and abroad.

Arts organizations play a central role in Canada's cultural and artistic life. They engage with the public through programming, outreach, education, community arts, civic partnerships and promotional activities, etc. They support and employ individual artists and other cultural workers.

At a glance

$93 million

or 66% of the Council's annual granting budget goes to annual and multi-year operating funding* for approximately 1,000 arts organizations, located in 157 communities.

1,704

arts organizations received $28M in project funding, 20% of Council's total granting budget. This amount has remained stable over the period of the strategic plan.

The stability of the Council's support to the arts sector assisted organizations during the economic crisis in 2008-09 and the ripple effects of this in subsequent years.

NEXT GENERATION MUSICIANS

Opera companies across Canada continue to demonstrate their commitment to Canadian opera creation and presentation, with assistance from the Canada Council. Calgary Opera's Emerging Artist Development Program, Pacific Opera Victoria's Resident and Young Artist Program, the Canadian Opera Company's "Ensemble Studio" as well as Opéra de Montréal's "Atelier Lyrique" provide professional training opportunities for Canada's up-and-coming opera singers as a transition from their academic study to a performance career.

Orchestras are also very active in reaching out to communities, including those that are underprivileged, underserved or isolated. For example, the Edmonton, Hamilton, New Brunswick, Kitchener-Waterloo, Prince George and Winnipeg orchestras run or participate in programs modeled on Venezuela's El Sistema which provides instruments, music lessons and orchestral playing to children.

The Winnipeg Symphony Orchestra partnered with the Seven Oaks School Division for its Sistema Winnipeg outreach program. Photo: WSO

Presence and engagement

Arts activities and attendance: Trending up

Canadians are involved with the arts through performances, exhibits, festivals, readings and screenings. This engagement is deepened by educational outreach, backstage tours, artist talks, participatory and co-creation events, etc.

Total attendance / participation as reported by a standard sample of organizations receiving Canada Council operating funding.

2011	2012	
18.1 million	19.3 million	↑
3-year average 19.0 million		+ 6.7%

Number of public arts activities as reported by a standard sample of organizations receiving Canada Council operating funding.

2011	2012	
50,453	55,714	↑
3-year average 48,920		+10.4%

Trend analysis

The number of arts activities and total attendance / participation have increased steadily.[4]

Volunteers: Canadians care about and give to arts organizations supported by the Council

Volunteers are a key measure of the level of community support of non-profit arts organizations: almost all arts and culture volunteers (99%) indicated that they volunteer in order to contribute to their community. Volunteers are also an important source of labour by which arts organizations increase their capacity. Volunteer boards are a critical component of the arts ecosystem, providing expertise and leadership to help organizations fulfill their mandates. About 1.4 million Canadians volunteered for or donated to all arts and culture organizations (or did both) in 2010 including to Canada Council funded orgnizations. The non-profit sector as a whole benefited from the contributions of 13.3 million Canadians.[5]

2012

Number of volunteer hours is equivalent to an estimated

700 employees

or 71% of the total full-time employees as reported by a standard sample of organizations receiving Canada Council operating funding

2010

1.4 million

Canadians volunteered for or donated to arts and culture organizations (or did both)

Total number of volunteers and total estimated number of hours worked by all volunteers as reported by a standard sample of organizations receiving Canada Council operating funding:

Total number of volunteers (including board members)

2011	2012	
52,691	53,344	+ 1.2%
3-year average 51,448		

Total estimated hours worked by all volunteers

2011	2012	
1,392,813	1,419,812	+1.9%
3-year average 1,461,159		

Trend analysis

Volunteer figures for Council-funded organizations have grown steadily over the past three years.

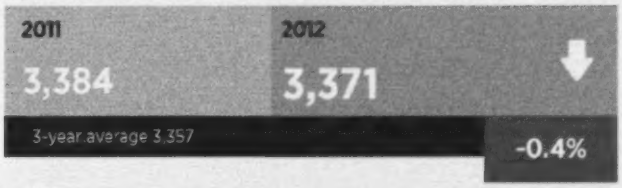
Strengthened arts organization capacity

Canadian arts organizations need to have the capacity to understand and respond to their environment. In order to measure this, two areas are analyzed: employment and financial health.

Employment: consistency
The Canadian cultural sector as a whole employs 609,000 cultural workers, including 140,000 artists.[7] The organizations supported by the Canada Council are primarily not-for-profit[8] and range in size from large companies with hundreds of employees to small organizations with few full-time staff.

Artistic, production/technical salaries

Arts, exhibition, production, programming and technical full-time equivalent employees (FTEs)



Administrative, facility, marketing, communications and fundraising salaries

Administrative, facility, marketing, communications and fundraising FTEs

Trend analysis

The standard sample of organizations receiving Canada Council operating funding have maintained consistent full-time equivalent (FTE) employment levels.[9]

Financial health of organizations: stability
The Council is examining two areas of financial performance of the standard sample of organizations receiving operating funding: revenues and expenses trends, and debt to assets ratio.

Revenues and expenses

(in millions of dollars)	2011	2012	% Change	3-year average
Proportion of self-generated revenue	65.9%	66.4%	0.5%	65.7%
Proportion of public revenue	34.1%	33.6%	-0.5%	34.3%
Total revenues	$844.1	$860.5	1.9%	$847.7
Total expenses	$830.7	$853.8	2.8%	$833.3

Debt to assets ratio

Average debt to assets ratios[10]	1.01	0.91	-9.9%	0.99
Total assets	$1,053.2	$1,095.3	4.0%	$1,050.8
Total liabilities	$850.2	$875.8	3.0%	$829.2

Trend analysis

Revenues and expenses: a standard sample of organizations receiving Canada Council operating funding have slightly increased the proportion of their revenues coming from self-generated sources (i.e., earned and private) with an equal reduction in public funding from all levels of government. Overall revenues have grown slightly over the reporting period, but the rate of growth has not kept pace with expenses.

Debt to assets: The long-term solvency of organizations as indicated by the debt to assets ratio is within an acceptable range and has strengthened over the reporting period.[11]

Results

Equity

The Canada Council has demonstrated its leadership role in promoting equity as a critical priority in fulfilling Canada's artistic aspirations.

Equity is an integral element of the Canadian arts ecology. The Council is committed to addressing barriers to accessing public arts support, with a particular focus on Aboriginal, culturally diverse, Deaf and disabled artists and arts organizations, as well as those from Official Language Minority Communities (OLMC). The Council also supports and promotes dialogue about equity.

Support to equity-seeking groups

The Council uses the percentage share of the arts labour force for equity groups as a benchmark to measure its support.[viii] It is important to note that comparative analysis between equity-seeking groups is not advisable as the barriers and issues in each community vary and the challenges in data gathering differ, particularly around identification.

Aboriginal

	2012	2013	% Change	3-year average
Peers	11.9%	12.6%	0.7%	11.6%
Grants	3.8%	4.2%	0.4%	4.1%

Arts labour force: 2.4%

Trend analysis

Peer assessors and grant share continue to exceed the benchmark of the arts labour force.

Culturally diverse

Peers	16.2%	15.3%	-0.9%	16.2%
Grants	6.1%	6.5%	0.4%	6.4%

Arts labour force: 10.6%

Trend analysis

Peer assessors continue to exceed the benchmark of the arts labour force while grant share falls below it.

Deaf and disability[viii]

	2012	2013	% Change	3-year average
Peers	2.6%	1.6%	1.0%	1.7%
Grants	0.8%	0.7%	-0.1%	0.6%

Arts labour force: 15.1%

Trend analysis

Peer assessors and grant share fall well below the benchmark. *Expanding the Arts: Deaf and Disability Arts Strategy* is currently being implemented to address these issues.

Francophone (Official Language Minority Communities)[ix]

Peers	6.7%	5.7%	-1.0%	6.1%
Grants	2.1%	2.3%	0.2%	2.2%

Arts labour force: 2.6%

Trend analysis

Peer assessors continue to exceed the benchmark of the arts labour force while grant share falls below it.

Anglophone (Official Language Minority Communities)[ix]

Peers	5.3%	7.3%	2.0%	6.9%
Grants	3.8%	4.2%	0.4%	4.0%

Arts labour force: 4.7%

Trend analysis

Peer assessors continue to exceed the benchmark of the arts labour force while grant share falls below it.

In order to gauge the effectiveness of its equity-based programs in light of the above trends, the Council is reviewing a number of programs and initiatives.

- It is evaluating the entire suite of Aboriginal arts programs in 2013.
- It is continuing to redesign the Equity Capacity Building Initiative following a 2010 review that showed the intent of enabling greater access to operating support has been moderately successful.
- The *Entente pour le développement des arts et de la culture dans la francophonie canadienne* will be renewed following an evaluation that showed it has been an effective tool for fostering collaboration.[x]

Results

Partnership

The Canada Council has extended its reach across the country and abroad and leveraged additional resources and a greater societal investment in the arts.

The Council improves service delivery to artists and arts organizations through timely investments in innovative partnerships. It advances its priority themes of public engagement, synergy and new technologies through collaborative work.

At a glance

1,922 organizations now submit one common form to multiple funders, reducing administrative burden and improving performance measurement for funders and organizations.

- CADAC – Canadian Arts Data/Données sur les arts au Canada – is the Council's largest partnership. This web-based application dedicated to the collection, dissemination and analysis of financial and statistical information about Canadian arts organizations is a partnership with arts funders from six provinces and seven municipalities. 1,922 organizations now submit one common form to multiple funders, reducing administrative burden and improving performance measurement for funders and organizations. The Council hosts the CADAC Secretariat.

- Other major partnerships target equity-seeking groups through investment in local programs and initiatives: Vivacité,[2] has increased support to young and emerging culturally diverse artists in Montréal since 2007; a new three year partnership with Arts Nova Scotia will address barriers for Aboriginal, culturally diverse and Deaf and disabled artists and artists with mental illness in Nova Scotia.

- As part of the Northern Strategy, the Council partnered with local funders to support gatherings in Yellowknife, NWT (October 2012) and Iqaluit, Nunavut (February 2013) to build connections, increase professional development and improve capacity.

- In 2012, the Council concluded a series of roundtables in nine cities across the country in partnership with Business for the Arts (BftA). The roundtables created new connections between public arts funders and the corporate sector in these communities. New initiatives to leverage additional corporate investment in the arts have been launched as a direct result.

- In order to increase the visibility of prize-winning artists, the Council works collaboratively with organizations such as Indigo Books & Music, CBC/Radio-Canada, the National Gallery of Canada and the Walrus Foundation. These partnerships have increased both the social and traditional media reach of campaigns and have engaged millions of Canadians.

A NATURAL PARTNER

The Canadian Commission for UNESCO is a veritable hub of discussion and commitment for governments, civil society and the public in the fields of education, culture, natural and social sciences, and communication and information. It is actively involved in implementing the Canada Council's strategic plan, especially the direction of partnership.

The Commission acts as a catalyst and contributes to real participatory democracy. In the field of education alone, the Commission has participated in the student conference Learning to Change Our World Together, National Adult Learners Week, National Teachers' Day and Arts Education Week. The Commission's work, notably in the areas of life-long learning and democratic participation, strongly underlines the Council's vision of cultural engagement. The Commission's initiatives in other areas share this vision (see unesco.ca).

The National Reading Campaign, whose aim is to give all access to reading and a love of learning, received the financial support of the Canada Council and the endorsement of the Canadian Commission for UNESCO. Photo: Richmond, B.C. Mayor Malcolm Brodie reading to kids as part of the National Reading Campaign

Results

Organizational Capacity

Enhance the Council's capacity to support the arts and implement change by strengthening structure, staffing and services.

The Canada Council is committed to ensuring that its own practices and policies are relevant and appropriate to its role as a national arts funder through a number of large-scale transformative changes in its work culture.

At a glance

Canada Council employees are embracing change through various system modernizations.

Move to 150 Elgin Street, Ottawa

The Council will be moving to a LEED Gold Standard building in January 2014. This new building will provide the Council with increased visibility and presence, including publicly-accessible exhibition space featuring work from the Canada Council Art Bank. The use of technology, modern construction techniques, favorable interest rates, construction collaboration with the landlord and a reduced environmental footprint will result in substantial cost savings to the Council. Building-related operating costs will remain below 2011-12 levels for the next five years.

New technologies: Systems modernization

The Council has launched significant changes to its suite of information systems. Its new Grant and Client Management system is in development, with the first programs being piloted in 2013-14. The new system will be more efficient, client-focused and allow for better tracking and reporting.

Website

The canadacouncil.ca website is one of the most important vehicles for communicating the work and values of the Canada Council. In spring 2013, a redesigned site was launched with a more vibrant and accessible public interface. This new site is more user-centric, functions across multiple platforms and promotes the artists and arts organizations supported by the Council.

DANCE MAPPING

Dance doesn't just happen at the ballet. It takes place almost anywhere: on the streets, at schools and in community centres across the country. It's practiced by young and old and enjoyed in-person and online. The Canada Council is leading a major research project to get a clearer picture of Canada's full dance ecosystem and its social and economic impacts. It is working with the Ontario Arts Council (a co-funder of the study), and in collaboration with the members of the dance community and arts funders at all levels. The project will continue through 2013-14 and the results will be posted on the Council website as they are finalized.

Two hundred amateur dancers took part in the line dancing extravaganza *Le Continental XL* (2011). Choreographed by Sylvain Emard, it was a Sylvain Emard Danse and Festival TransAmériques co-production, co-presented by Quartier des spectacles. Photo: Robert Etcheverry 2011

ACCESS FOR ALL

The Deaf and disability arts are important evolving sectors and art practices in the Canadian arts ecology. That's why the Canada Council is committed to supporting, promoting and advancing them. In 2012 it launched a Deaf and disability arts strategy, *Expanding the Arts*, developed in consultation with the community. The strategy included allocating new funds from 2011-14 (over $1 million total) to strengthen the capacity of Deaf and disability arts organizations. This boost in investment makes for a more vibrant and diverse arts scene that all Canadians can enjoy.

Marie-Hélène Bellavance and Tom Casey in Corpuscule Dance's *Oiseaux de Malheur*. Photo: Frédérick Duchesne

A note on the new performance report

The Canada Council is changing the way it reports on performance in its annual report. In previous years, a Corporate Scorecard detailed comprehensive metrics on the outputs of Canada Council funding. This will continue to be available in the National Overview chapter of the publication, *Funding to Artists and Arts Organizations*, available online. Annual reports will now place increasing emphasis on results. Improved measurements will demonstrate the impact, and not just outputs, of Canada Council funding on artists, arts organizations and, ultimately, the Canadian public.

Some of the measurements reflect these changes. This performance report will continue to evolve as new tools are implemented in the coming years. This is part of the Council's investment in increased capacity in demonstrating results, such as the new grants management system and CADAC.

The measures at the ultimate outcome level are those that the Council contributes to but does not control. For those at the results level, the Council can claim varying degrees of attribution. It is important to recognize that the Council's investment is part of a larger system of support, including public, private and earned revenues.

i. Findings reported in Hill Strategies' *Volunteer and Donors in Arts and Culture Organizations in Canada* in 2010 are from Statistics Canada's *2010 Canada Survey of Giving, Volunteering and Participating (CSGVP)*, which includes questions about volunteer time and financial donations to not-for-profit organizations in the 12 months preceding the survey.

ii. The Department of Canadian Heritage's *Arts and Heritage in Canada: Access and Availability Survey 2012* reports on findings from a telephone survey about public opinion as well as participation during the previous 12 months. The survey was administered to 1,001 Canadian residents, 18 years of age or older.

iii. The Canadian Arts Data/Données sur les arts au Canada (CADAC) is a web-based application dedicated to the collection, dissemination and analysis of financial and statistical information about Canadian arts organizations, excluding book and magazine publishers. Notably, financial figures from CADAC are reconciled, while statistical data represent what is reported by organizations and may include double counting. The CADAC data reported here reflect a standardized sample based on CADAC figures as of May 1, 2013, as reported by 573 organizations receiving Canada Council operating funding. While these organizations are all recipients of Council funding, it should be noted that the results include other earned private and public revenue and are not solely attributable to Canada Council funding.

iv. Operating grants are awarded to arts organizations to help pay costs of administration, equipment and production facilities, residency programs, professional development, research and analysis, audience development, publication activities, marketing and promotion and artistic expenses. Funding that covers more than one year is called "multi-year operating assistance."

v. Statistics Canada, 2006 Census.

vi. The primary exception is in Writing and Publishing, many publishers and magazines are for-profit enterprises. The Council provides financial assistance to Canadian publishers to offset the costs of publishing Canadian trade books that make a significant contribution to the development of Canadian literature.

vii. Arts labour force figures were reported in Hill Strategies' *A Statistical Profile of Artists in Canada* and are based on a custom data request from the 2006 census, commissioned by the Department of Canadian Heritage from Statistics Canada.

viii. Deaf and disability figures are based on a custom data request by the Canada Council from Statistics Canada's 2006 *Participation and Activity Limitation Survey*, "a national survey that gathers information about adults and children whose daily activities are limited by a physical, mental or other health-related condition."

ix. Mother tongue data are based on First Official Language (FOLS) definition of language. This includes individuals 15 or over who reported artistic income according to mother tongue.

x. The Entente between the Fédération culturelle canadienne-française, the Department of Canadian Heritage, the Canada Council, the National Film Board, Radio-Canada and Telefilm has been in place since 1998.

xi. The Vivacité partnership agreement was first signed in 2007 and renewed in 2011 "for a three-year period by the Conseil des arts et des lettres du Québec, the Canada Council for the Arts, the Conférence régionale des élus de Montréal, Quebec's ministère de l'Immigration et des Communautés culturelles, the Conseil des arts de Montréal and the Foundation of Greater Montreal.

xii. Debt to assets ratio: A measure of total liabilities relative to total assets. A ratio of less than 1:0 is considered healthy. A high or increasing value may indicate future problems with solvency.

Financial Overview

HIGHLIGHTS

The Council's surplus for the year ended March 31, 2013 represents $6.0 million in comparison to a deficit of $6.3 million for 2011-12 and an original balanced budget for 2012-13. The current surplus of $6.0 million is mainly attributable to a positive variance of $3.0 million in net investment income as well as a reduction of $2.8 million in expenses related to program administration, services, Canadian Commission for UNESCO and general administration.

Actual grant program expenses of $153.4 million for the year ended March 31, 2013 are in line with the approved budget. The Council continues to review its programs, their means of delivery and its supporting activities to ensure that they remain relevant to Canadians. Future savings realized are to be reinvested into the arts sector.

2012-13 was the second year of the Council's *Strategic Plan 2011-16*. The Council continued to deliver against the strategic directions and themes identified in the plan. During the year, net expenses other than grants continued to be subject to the government's requirement to exercise fiscal restraint and could not exceed those of 2010-11. These net expenses in 2012-13 were $35.7 million in comparison to $38.4 million for 2010-11. In constant dollars, this would represent a decrease of $3.3 million.

The Council receives an annual appropriation from Parliament which, for the year ended March 31, 2013, was $181.2 million ($181.0 million in 2011-12).

In 2012-13, the Endowment and Special Funds and the Killam Fund had positive annual returns of 10.1% (2.1% in 2011-12) and 10.3% (1.7% in 2011-12) respectively. In comparison to prior year, the investment portfolio has grown by $14.6 million with a fair value of $285.1 million as of March 31, 2013. The annual results are encouraging but the current market conditions remain volatile. The Council continues to closely monitor its portfolio's performance and risks. Effectively, to generate long term real returns and to maintain its purchasing power, the Council has revised downwards its Expenditure Policy for the Killam Fund from 4% to 3.75% for 2013-14.

As of April 1, 2010, the Council, in its transition to *Public Sector Accounting Board (PSAB)* standards, presented its inventory held at the Art Bank at a nominal value of $1,000 on the Statement of Financial Position (originally recorded at historical cost of $19.2 million). During the year, the Council has determined that this tangible capital asset should have been recorded in accordance with *CICA Handbook section PS3150 – Tangible Capital Assets*. This standard requires that the tangible capital assets held for rental to others and not intended to be preserved to perpetuity be recorded at cost. As a result, the prior year financial statements have been restated and the Art Bank inventory is capitalized at $19.4 million on the Statement of Financial Position as of March 31, 2013.

During the year, the Council continued to plan the move to the new LEED Gold certified building located at 150 Elgin Street Ottawa. Occupancy is scheduled for January 1, 2014. The net effect of the use of new technology, modern construction techniques, joint-fit-up collaboration with the landlord and a reduced environmental footprint is a cost saving to the Council such that for the first five years of accommodation costs will be below the current accommodation costs. The Council also has significant changes underway to its suite of information systems. When implemented over the next two years, these and other changes relating to its programs, will transform the Council's manner of operation. While reducing administrative costs, we foresee the impact of the changes to increase effectiveness and efficiency of the current processes.

In 2012-13, the Council updated it's risk assessment profile. The statement reconfirms the Council's low appetite for risks that could negatively impact the rigor and transparency of its granting processes, given that this is foundational to the legitimacy of the Council's mandate. Similarly, the Council will continue to monitor and mitigate financial risks, especially related to revenue uncertainty given the critical importance of the Council's ability to provide funding and support to the arts community. The Council has acknowledged the risk that the extent of internal simultaneous changes, if not properly mitigated could adversely affect the productivity of employees. That notwithstanding, the Council reiterated its high appetite for artistic risk including support of artistic aspirations, creativity and innovation.

Summary Financial Position as at March 31

(in thousands of dollars)	2013	Restated 2012
Total financial assets	$ 288,831	$ 272,855
Total liabilities	63,941	62,771
Net financial assets	224,890	210,084
Non-financial assets	22,002	21,777
Accumulated surplus	**$ 246,892**	**$ 231,861**

Summary Statement of Operations for the Years Ended March 31

(in thousands of dollars)	Budget 2013	Actual 2013	Restated Actual 2012
Total revenue	$ 191,876	$ 195,083	$ 188,105
Total expenses	191,861	189,092	194,399
Annual surplus (deficit) from operations	**$ 15**	**$ 5,991**	**$ (6,294)**

FINANCIAL POSITION

Financial Assets

As at March 31, 2013, total financial assets were $288.8 million, an increase of $15.9 million over the previous year. Financial assets include both those assets that in the normal course of operations are expected to be converted into cash or expensed within the next year and portfolio investments in financial instruments. The Council's liability for bank indebtedness at March 31, 2013 was $1.3 million ($1.6 million at March 31, 2012.)

As at March 31, 2013, the fair value of the Council's investments was $285.1 million, an increase of $14.6 million over the prior year.

The Council invests in units of pooled funds that are managed by professional money managers. The Council's investments are guided by a *Statement of Investment Policies and Goals*, which is approved by the Board. The objectives of the portfolio are to generate long-term real returns to supplement the parliamentary appropriation and to support the fellowships and prizes for the Killam Fund and Special Funds, while maintaining the purchasing power of the endowed capital. The Killam Fund and Special Funds represent contributions from non-owners that have been received by way of donation and bequest and have been restricted for specific purposes by the donors. The Killam Fund is required to be maintained in a separate investment portfolio that is consolidated for reporting purposes. The Special Funds are included with the Council's investment portfolio; a proportionate share for each contribution is calculated based upon the fair value of the investment portfolio at the time each contribution was received.

An Investment Committee composed of independent experts with experience in both the investment field and the asset classes in which the Council invests assists in the oversight and management of the portfolio. Council Board members sit on the Investment Committee. In addition, the Council uses the services of an independent investment consultant to assist the Investment Committee in its work.

The Investment Committee reviews the Council's investment policy annually, and, as considered necessary and appropriate, recommends adjustments to the asset mix and to the diversification of the portfolio management structure. At each meeting during the year, the Investment Committee assessed the effect of implementation of the policy on the portfolio through regular updates from investment managers and review of the portfolio's performance. The table below shows the actual comparative asset mix as well as the asset mix targets for the portfolio.

Investment	Asset mix 2012-13		Asset mix 2011-12	
	Actual	Target	Actual	Target
Canadian equities	10%	10%	10%	10%
Global equities	39%	35%	36%	35%
Fixed income	32%	35%	34%	35%
Alternatives	6%	10%	10%	10%
Money market	6%	0%	3%	0%
Real estate	4%	5%	4%	5%
Infrastructure	3%	5%	3%	5%

The Investment Committee and senior management monitors closely the level of risk within the portfolio. For the four years ending March 31, 2013, total fund return was 8.0% in comparison to a benchmark return for a portfolio of similar mix of 10.6%. For the same period the risk, as measured by the standard deviation of quarterly returns, was 7.0% for the fund compared to 6.4% for the benchmark. The Investment Committee undertook a thorough review of it's asset allocation strategies and the desired levels of risk and recommendation will be made to the Board of Directors in 2013-14 for the implementation to take place in that same year.

During the year, the Council realized a net gain from disposal of portfolio investments of $1.5 million along with $12.7 million in interest/dividend income. The current year results compare favorably to the prior year capital losses of $8.2 million and $13.7 million in interest/dividend income. The Council is encouraged with the current investment returns but nevertheless, market conditions remain volatile. An important outcome is that the Council has adjusted its Expenditure Policy for the Killam fund to reduce spending to 3.75% of the average of the market value of the fund over the last three years effective in 2013-14 and to 5.5% starting in 2014-15 (from 4.0% in 2012-13).

Liabilities

As at March 31, 2013, total liabilities were $63.9 million, a decrease of $1.1 million over the previous year. The two most significant components of the liability are grants payable and deferred revenues from externally restricted contributions, representing respectively $27.0 million (42%) and $27.7 million (43%) of total liabilities. Deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purposes specified by the related endowments. The original externally restricted endowment principal of $37.6 million is required to be maintained intact and is reported under accumulated surplus.

Liabilities also include employee future benefits, which represent the severance entitlements of the Council's employees and post-retirement benefits covering employees and retirees. The Council provided severance benefits to its employees based upon years of service and final salary. In accordance with the collective agreement signed in February 2012, these benefits have ceased to accrue in 2012-13. The employees had various options regarding the timing of their payout with respect to the Council's obligation. The accrued benefit obligation for severance represents $1.0 million at year-end in comparison to $2.8 million as of March 31, 2012. The Council also has defined post-retirement benefit plans providing extended health and dental benefits to retired employees. In 2012-13, the Council obtained its first actuarial valuation resulting in actuarial losses of $1.8 million to be amortized over the expected average remaining service period of the employee group (14 years). The accrued post-retirement benefit obligation balance at March 31 2013 represents $1.5 million ($1.4 million as of March 31, 2012).

Non-Financial Assets

Tangible capital assets include office equipment and leasehold improvements, which increased by $0.1 million over the course of the year. This asset category will increase in value in future years as the Council invests in the fit-up of its new premises and in new technology hardware, infrastructure and systems.

The Council's Art Bank is the largest collection of contemporary art in Canada, with over 17,500 works, and rents its inventory to interested public and private sector organizations. The Art Bank reinvests accumulated surplus from its operations in the acquisition of new works for its inventory.

As of April 1, 2010, the Council, in its transition to PSAB standards, presented its inventory held at the Art Bank at a nominal value of $1,000 on the Statement of Financial Position (originally recorded at historical cost of $19.2 million). During the year, the Council has determined that this tangible capital asset should have been recorded in accordance with *CICA Handbook section PS3150 – Tangible Capital Assets*. This standard requires that the tangible capital assets held for rental to others and not intended to be preserved to perpetuity be recorded at cost. As a result, the prior year financial statements have been restated and the Art Bank inventory is capitalized at $19.4 million on the Statement of Financial Position as of March 31, 2013.

The Council's Musical Instrument Bank owns or manages 19 historically important, fine stringed instruments and a fine cello bow, which are loaned to gifted young musicians for three-year terms. Musical instruments appear on the Council's Statement of Financial Position at a nominal value of $1,000 as a reasonable estimate of the future benefits associated with such assets cannot be made.

At March 31, 2013 the appraised value of the Council's Art Bank inventory was approximately $7.1 million and the appraised and insured value of its musical instruments was $36.5 million.

Accumulated Surplus

Accumulated surplus consists of the following elements as at March 31:

	2013	2012
Accumulated surplus		
Endowment - Original contribution	$ 50,000	$ 50,000
Endowment principal - Externally restricted contributions	37,569	37,569
Reserve for excess investment income	123,445	118,445
Surplus	26,983	25,992
Total accumulated surplus from operations	237,997	232,006
Accumulated remeasurement gains (losses)	8,895	(145)
Accumulated surplus balance	$ 246,892	$ 231,861

The $50 million Endowment - Original contribution represents the remaining original government transfer in 1957 of endowments to enable the Council to be established. The externally restricted endowment principal of $37.6 million represents the original value of other endowment funds received by the Council over the years almost entirely from private individuals. By recording these values within accumulated surplus the endowments, while held separate, are in effect being treated as if they had been revenues.

The Council's policy is that, in years when investment income exceeds the amount of net budgeted investment income, an amount may be transferred from the surplus to the reserve for excess investment income. $5.0 million was appropriated to the reserve for excess investment income during the year. The total reserve of $123.4 million at March 31, 2013 represents the sum of excess investment income relating to the original endowment principal since the establishment of the Council.

OPERATIONS

Summary Statement of Operations for the Years Ended March 31

(in thousands of dollars)	Budget 2013	Actual 2013	Restated Actual 2012
Parliamentary appropriations	$ 181,261	$ 181,180	$ 180,958
Net investment income	9,290	12,296	5,340
Other revenue	1,325	1,607	1,807
Total revenue	**191,876**	**195,083**	**188,105**
Programs	173,740	171,845	176,165
Canadian Commission for UNESCO	2,329	1,866	2,003
General administration	15,792	15,381	16,231
Total expenses	**191,861**	**189,092**	**194,399**
Annual surplus (deficit) from operations	$ 15	$ 5,991	$ (6,294)

The Council's net financial result for the year is a surplus of $6.0 million in comparison to a balanced budget forecasting a surplus of $15 thousand and a loss of $6.3 million for 2011-12. The current surplus of $6.0 million is mainly attributable to a $3.0 million positive variance in net investment income, an increase in other revenue of $0.3 million as well as a reduction of $2.8 million in expenses related to program administration, services, Canadian Commission for UNESCO and general administration.

Parliamentary Appropriations

The Council receives its main funding through Parliamentary appropriation voted by Parliament. The Council records the Parliamentary appropriation received in the period as revenue in the Statement of Operations. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The monthly drawdown is invested in a short term pooled fund managed by a professional investment manager from which the Council draws its daily cash requirements.

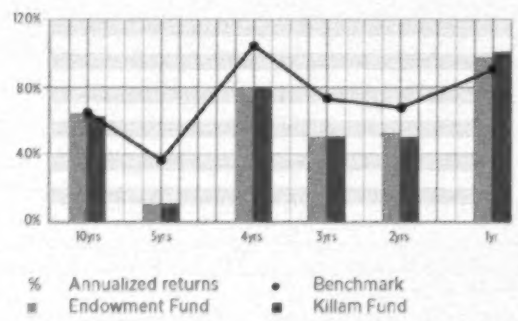
For the year ended March 31, 2013, the appropriation received by the Council was $181.2 million, $0.2 million more than in 2011-12. This minor change relates primarily to more funding used regarding the National Translation Program that the Council operates on behalf of the Department of Canadian Heritage under a Memorandum of Agreement.

Investment Income

The financial markets in which the Council invests are diversified and, in 2012-13, the Endowment and Special Funds and the Killam Fund had positive annual returns of 10.1% (2.1% in 2011-12) and 10.3% (1.7% in 2011-12) respectively. The annual return on investment is 1.4% above the benchmark of 8.7%. The results are encouraging, indicating that we are moving in the right direction to achieve the long term investment objective. Although there is a sense that the world-wide financial crisis is under control, risks remain and volatility is still very present.

The following chart shows the annualized portfolio returns for various periods of the Endowment and Special Funds and the Killam Fund against the benchmark return. It shows the impact of the 2008 economic downturn and the subsequent recovery.

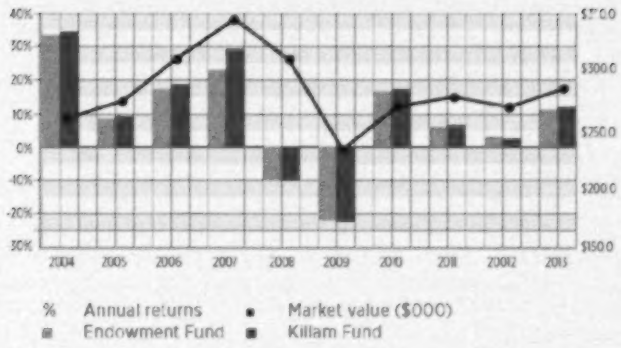
Annualized Portfolio Returns (periods ending March 31)



The Council's investment policy prescribes that cash can be withdrawn from the portfolio at a rate of up to 4.0% of the previous three-year average market value. During the year the Council's Board approved the reduction of this Expenditure Policy rate for the Killam fund from 4.0% to 3.75%, effective in 2013-14 (3.5% starting in 2014-15). This approach recognizes the need to balance return with the long-term preservation of capital and the fact that the Killam program is entirely funded by the investment income generated by its fund.

The following chart shows the annual portfolio returns for the Council in each year since 2004 and the corresponding effect that those returns have had on the year-end market value. The chart also demonstrates how the investment market returns can fluctuate year over year. The Council reinvests excess investment income above the budgeted amount in order to ensure the continued growth of the fund. This reinvestment is also intended to bring the value of the portfolio closer to what the original endowment amount from 1957 would be if expressed in today's dollars. This proactive approach helps bring additional stability and long-term growth for the Council.

Annual Portfolio Returns (years ending March 31)



Other Revenue

Net Art Bank loss represents $0.1 million for the current year in comparison to a loss of $0.2 million last year. The loss reflects the challenges of a declining level of rental of its inventory by the federal government. The Art Bank is aggressively seeking new sources of rental revenue in the private sector while continuing to ensure that its activities remain aligned to the mandate of the Council. Another contributing factor to the loss is the fact that the Art Bank has not been compensated for the services provided to the Council over the years.

Other revenue includes the cancellation of grants awarded in previous years, boardroom rental fees, donations, tax rebates, hosting fees and others.

Program Expenses

Program expenses for the years ending March 31 include the following three components:

(in thousands of dollars)	Budget 2013	Actual 2013	Restated Actual 2012
Grants	$ 158,371	$ 156,397	$ 157,304
Administration	13,676	13,144	12,967
Services	6,693	5,304	5,894
	$ 173,740	$ 171,845	$ 176,165

In 2012-13, program expenses accounted for 91% of Council's total expenses of $189.1 million. This percentage is consistent with 2011-12. Program expenses are $4.4 million less than the previous year and $1.9 million less than budget. Grants to artists and arts organizations represented about 89% of the total program expenses; they decreased by $3.9 million this year in comparison to the prior year. This decrease resulted primarily from the intentional use of funds from the Council's surplus to deliver programs relating to the pooled acquisition of equipment by Media Arts organizations of $2.2 million in 2011-12, the special $1 million contribution from Alberta Creative Development Initiative which ended in 2011-12 and finally, the reduction of $1.2 million in grants due to the revised investment spending policy in 2012-13. Services include other types of support provided to the arts community, such as partnerships, advisory committees, research, workshop expenses, adjudication of programs, and program evaluation. These costs were lower than the previous year by $0.6 million and lower than budget by $1.4 million in both cases as a result of the implementation of cost efficiencies in the conduct of peer assessments and improved leverage of funds in the establishment of partnerships. Program administration costs represent the direct cost of operating the Council's programs. These include salaries, benefits, travel and professional services, and they decreased $0.6 million in comparison to budget demonstrating the Council's constant efforts to exercise fiscal restraint and seek economies regarding these costs. The Council will continue to review programs and processes over the next two fiscal years.

The Canadian Commission for UNESCO

The Canadian Commission for UNESCO (CCU) operates under the aegis of the Canada Council. The CCU had net expenses of $1.9 million in 2012-13, a decrease of $0.4 million in comparison to budget. The CCU coordinates UNESCO program activities in Canada; encourages Canadian participation in UNESCO activities abroad, including the provision of expert advice and assistance from both governmental and non-governmental organizations; and provides advice about future UNESCO programs and budgets to the Department of Foreign Affairs and International Trade. The CCU also initiates activities in Canada to advance and obtain visibility for UNESCO's program objectives.

General Administration

General administration expenses include the cost of Council Secretariat, Communications and Corporate Services (which includes Finance, Human Resources, Information Management and Administrative Service). Items include salaries, benefits, travel, professional services, amortization, accommodation and others. These costs were $0.8 million lower than those reported in 2011-12 and were $0.4 million under budget. The Council will continue to exercise fiscal restraint and seek economies regarding general administration costs in the next fiscal years.

REMEASUREMENT GAINS AND LOSSES

The accumulated remeasurement gains from portfolio investments and derivative financial assets as of March 31, 2013 represent $8.9 million. These are the accumulated unrealized gains net of reclassification to Statement of Operations, upon realization for changes in fair value of the Council's non-restricted portfolio investments.

CASH FLOWS

Operating Transactions

Cash provided by operating activities was $2.4 million. This is consistent with prior year which generated $2.1 million from operating activities.

Capital Transactions

Cash used to acquire tangible assets was $1.4 million in comparison to $0.8 million the previous year. This usage is expected to increase significantly in the next few years as the Council fits-up its new premises and invests in new information systems.

Investing Transactions

Net cash used by investing activities was $0.6 million which is consistent with the previous year. However, the value of underlying transactions incurred in the course of rebalancing the Council's portfolio was significantly higher during 2011-12 than in 2012-13.

RISK MANAGEMENT

Effective risk management is fundamental to the success of the Council in fulfilling its mandate. The Council is developing a strong risk management culture where risk management is a responsibility shared by all of its employees. The primary goals of enterprise risk management are to ensure that the outcomes of risk-taking activities are consistent with the Council's plans, strategies and risk appetite.

The Council's risk management framework consists of four key elements:

- Risk Governance;
- Risk Appetite;
- Risk Profile, assessment and mitigation; and,
- Financial Risk mitigation.

Risk Governance

The Council's risk management governance begins with oversight by its Board, either directly or through its committees to ensure that decision-making is aligned with strategies and appetite. The Board receives regular updates on the Council's key risks including regarding its risk profile and related mitigation, financial performance and performance of the investment portfolio. The Council's executive management are responsible for risk management under the direct oversight of the Board.

In 2012-13, the Council updated its Corporate Risk Profile taking into consideration changes in the Council's risk environment. This included re-assessment of the risks and updates to the Council's significant potential risks as well as mitigation strategies. The 2012-13 risk universe is illustrated below:

Corporate Risks

Strategic	Program Delivery	Enabling Activities	Compliance
Risk related to the strategic management of the Council and relationships with its shareholders and stakeholders	**Risk related to the Council's core granting processes**	**Risks related to the Council's support and operational processes**	**Risk related with external / internal requirements**
• Revenue uncertainty • Change overload • Strategy execution • Demonstration of results • Stakeholder communications • Resumption of business following a disaster • Governance • Clarity of decision making authorities / process • Reactions to potentially adverse events	• Funding controversies • Funding gaps / non-strategic duplication of funding • Suite of programs / levels of funding • Peer assessment process • Rigor and transparency of the granting process • Arts Services Unit • Research support • Implementation of partnerships	• Information technology • Breach of data privacy / security • Human resource capacity / competency/succession planning • Budget management • Knowledge and records management • Communication support	• Compliance with external requirements / obligations • Compliance with internal financial policies and procedures • Compliance with internal HR policies and procedures • Compliance with internal granting policies and procedures

Risk Appetite

The Council's risk appetite statement, as approved by the Board, remains as follows:

"The Canada Council for the Arts follows a prudent risk-taking approach in managing the organization. It defines prudent risks as those seen to contribute to the organization's capacity to better deliver its mandate within a range of consequences that are well understood and appropriately mitigated.

The Council has low appetite for risks that could negatively impact the rigor and transparency of our granting processes, given that this is foundational to the legitimacy of the Council's mandate. Similarly, the Council has a low appetite to undertake financial risks that would negatively impact our cost-effectiveness and investment performance, given the critical importance of appropriately managing financial resources to our ability to provide funding and support to the arts community.

With regards to our suite of funding programs and support to the arts community, we have a low appetite for risks that would hinder our ability to be flexible and responsive to changes in the arts ecology and economic conditions and a low appetite for risks that would adversely affect support of the arts infrastructure in Canada. That notwithstanding, the Council has a high appetite for artistic risk. Notably, we maintain a high appetite for risks related to the Council's support of artistic aspirations, creativity and innovation as this is essential to the development and evolution of a vital and diverse arts sector that enriches the lives of all Canadians. In that context, we have a moderate appetite for risks that could affect our ability to build and sustain reputational strength with key stakeholders.

To enable the Council to continuously improve its operating performance, we are willing to take on moderate risks for opportunities that could lead to improved internal structure, staffing and services as well as overall strategy execution. However, we will manage any risks taken in this regard within the constraints of our core values, organizational culture, and commitment to staff.

Ultimately, we will manage the organization in a way that will enable us to deliver on our mandate and strategic directions and to demonstrate results. We will be cautious in our acceptance of any risks that could hinder our abilities to do so.

The Council ensures that it fulfills its mandate and operates as a high performance organization through effective governance by its Board. The Council has a low appetite for any risks that would affect its capacity to independently govern itself."

Risk Profile

Using the Council's risk appetite as key context, the following risks, as identified and assessed during the 2012-13 risk assessment process, are considered to be outside of the Council's appetite. Consequently, for these, focused updated risk mitigations are being implemented under the oversight of assigned members of the executive management in order to reduce the risk exposure:

1. inadequate Information Technology support;
2. inadequate Human Resources capacity;
3. inability to demonstrate results;
4. revenue uncertainty; and,
5. change overload.

Financial Risk

The Council is exposed to a variety of financial risks as a result of its activities. These include credit risk, liquidity risk and market risks. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council. A significant portion of the Council's receipts are due from the federal and municipal governments and, as such, have low credit risk. Liquidity risk is the risk that the Council will not be able to meet its financial obligations as they fall due. The Council currently receives most of its revenues by way of parliamentary appropriation drawn down monthly. That revenue is invested in a short-term pooled fund until it is required. The Council's activities are primarily exposed to price risk, interest rate risk and currency risk. The directive to the Council's investment managers is to manage the Council's market risks on a daily basis in accordance with the Council's policies. Overall market positions are monitored quarterly by the Investment Committee and the Board of Directors.

Governance

Governance

Board Mandate

The Canada Council for the Arts is governed by a Board consisting of a Chairperson, Vice-Chairperson and nine other members from across Canada. Members are appointed by the Governor in Council for fixed terms. The Board meets at least three times a year and is responsible for the organization's policies, programs, budgets and grant decisions.

The Board is the steward to the organization and oversees its governance. It conducts the Council's business, directs management and ensures that all major issues affecting the organization are given proper consideration. The Board is accountable to Parliament through the Minister of Canadian Heritage.

The general duties of the Board are described in the Council's By-laws and Governance Policy.

Highlights: In 2012-13, the Board

- held four meetings in Ottawa and two teleconferences
- participated in the Council's Annual Public Meeting in Ottawa
- oversaw the ongoing work related to the implementation of *Strengthening Connections: Corporate Plan 2011-16*, including a day-long Board strategy session on public engagement in the arts
- recommended Queen Elizabeth II Diamond Jubilee Medals to 47 Canadians for their sustained contributions to the arts in Canada
- approved appointments to the Council's Investment Committee, including the appointment of George Mavroudis as the next Chair of the Committee (effective June 2013)
- regularly reviewed the Board Statement of Requirements, in preparation for current and upcoming Board vacancies, and began discussions around succession planning for the Director/CEO position
- oversaw the ongoing work and plans for the move to new office space and the modernization of Council's systems
- approved major program modifications and grants over $100,000

Board Independence

All members of the Board are independent directors. While the Director/CEO and Executive Management attend Board meetings to provide information and report on activities, only members may vote and make decisions. Board committees are composed of Board members, with some committees expanded to include external experts selected for their knowledge and expertise.

Culture of Ethical Business Conduct

Board members, as public office holders, are bound by the federal government's *Conflict of Interest Act*, the *Ethical and Political Activity Guidelines for Public Office Holders*, as well as the *Code of Ethics for Canada Council Board Members*. The Board is required to disclose any conflicts of interest on an annual basis, and as they occur throughout the year.

Corporate Social Responsibility

The Canada Council is committed to carrying out its mandate in an environmentally, socially and ethically responsible manner in accordance with its values and principles.

In an effort to fulfill this commitment, the Council continues to:

- conduct its business with honesty, integrity and fairness
- strive to reduce its environmental footprint by incorporating environmental sustainability considerations into its plans, activities and projects
- provide an organizational climate that stimulates and supports employee performance and development

The Board oversees these commitments and is responsible for ensuring the integration of social, environmental and ethical considerations into all Board-related matters.

Board Renewals and Appointments

The Board advises the government on appropriate selection criteria for the Chairperson of the Board, as well as competency profiles and future needs for Board members and for the position of Director/CEO. A skills and expertise profile, and suggestions of potential candidates, have been provided to the Minister of Canadian Heritage in response to current and upcoming vacancies.

Howard Jang (Vancouver, British Columbia) was appointed for a four-year term, effective April 2, 2012; Luc LaRochelle (Montréal, Quebec) was re-appointed for a second four-year term, effective June 21, 2012; Brenda Stehelin (Whitehorse, Yukon) was appointed for a four-year term, effective November 22, 2012. At March 31, 2013, there was one Board vacancy.

Board Orientation and Continuing Education

New Board members are provided with a comprehensive information package prior to their first meeting. They participate in an orientation session with Executive Management and attend all committee meetings at the time of their first Board meeting.

In 2012-13, as part of the continuing education program, Board members participated in professional development sessions led by Council staff, on the following topics:

- trends in the arts (October 2012)
- relationships with other arts funders (January 2013)
- awards and prizes (March 2013)

One Board member also attended the Commonfund Forum, a leading investment conference for trustees and investment staff of nonprofit institutional investors.

Performance Evaluation

Every year, under the direction of the Governance and Nominating Committee, the Board undertakes an evaluation of the performance of the full Board and its committees. Work is undertaken throughout the year to implement the recommendations resulting from the Board evaluation.

Under the direction of the Executive Committee, the Director/CEO's performance is assessed annually by the Board, according to the Privy Council Office's Performance Management Program for Chief Executive Officers of Crown Corporations. The Board communicates the results of the Director/CEO's annual performance appraisal to the Minister of Canadian Heritage.

Communications

The Canada Council, as a federal Crown corporation, recognizes the importance of communicating effectively and in a timely manner with parliamentarians, government and other key stakeholders, such as the arts community, and the public. The Board is responsible for ensuring that the Council communicates effectively and consistently with the Minister and officials in the Department of Canadian Heritage.

Reporting Requirements

In accordance with specific acts and regulations, and to ensure ongoing communications and transparency, the Council submits a number of reports on an annual basis to different government departments.

Access to Information Act and Privacy Act (ATIP)
The Council's Annual ATIP report for 2011-12, which includes statistical data on the Council's administration of the Acts, was submitted to Canadian Heritage and tabled in Parliament on October 5, 2012.

Canadian Multiculturalism Act
The Council's Equity Office is responsible for pursuing the requirements of the *Canadian Multiculturalism Act*, and for completing an Annual Report on the Operation of the *Canadian Multiculturalism Act*. This report was submitted to Citizenship and Immigration on June 5, 2012.

Timothy Chooi competed in the 2012 Musical Instrument Bank competition to win the loan of the 1729 Guarneri del Gesù, valued at $5 million. Photo: Canada Council for the Arts / Donna Santos Photo & Video

The Frye Festival, an annual bilingual literary event in Moncton, New Brunswick, was a festival partner of the Canada Council's Governor General's Literary Awards (the GGs). Shown here at a panel discussion sponsored by the Council: moderator Thomas Hodd, and GG award-winning authors Pemine Leblanc, Marq de Villiers, Kim Thúy and Peter Behrens. Photo: Emmanuel Albert

Official Languages Act
The Council is responsible for the implementation of Parts IV, V, VI and VII of the *Official Languages Act*. The Council, through the National Coordinator for the implementation of section 41, submits a multi-year action plan to the Department of Canadian Heritage regarding section 41 of Part VII of the Act. This was done in January 2012 and will be in effect until 2016.

Section 41 refers to the federal government's responsibilities under the *Act toward Official Language Minority Communities* (Francophones outside Quebec, Anglophones in Quebec) and to the promotion of English and French in Canadian society. An annual report was submitted in July 2012 and is available on the website.

The Council also presents an annual report detailing the Council's activities under Parts IV, V and VI to the Treasury Board Secretariat. This report was submitted on May 24, 2012.

Employment Equity Act
As a federal organization with over 100 employees, the Council files an annual Employment Equity Report with Human Resources and Skills Development Canada (HRSDC). The 2011 report was submitted on May 31, 2012.

Annual Public Meeting

On October 16, 2012, the Council held its Annual Public Meeting in Ottawa. It reported on its recent activities and plans for the future, and received feedback from interested stakeholders. Guest speaker Richard Evans of Emc Arts, New York, spoke about entering a new era in arts support. The Director/CEO, the Chair, the Vice-Chair and all other members of the Board, as well as senior staff, were present.

Board Committees

Board committees enhance the overall effectiveness of the Board by ensuring closer focus, oversight and monitoring of areas of particular concern. The committees' roles, responsibilities and reporting requirements are defined in the By-laws. There are four standing committees of the Board:

Executive Committee
The Executive Committee acts on behalf of the Board (with exceptions related to the approval or amendments of By-laws, policies, budgets, financial statements, grants or the Annual Report) in the interval between meetings of the Board.

Membership: Joseph L. Rotman (Chair), Simon Brault and Barbara Burley.

Audit and Finance Committee
The Audit and Finance Committee is responsible for the oversight of the Council's financial performance and ensures the integrity, effectiveness and accuracy of Council's financial reporting, control systems, integrated risk management processes and audit functions.

Membership: Simon Brault (Chair), Howard Jang, Luc LaRochelle, Philip Ponting (until February 11, 2013) and Anna Porter. At March 31, there was one vacancy.

Governance and Nominating Committee
The Governance and Nominating Committee is responsible for ensuring that proper structures and processes are in place for the effective oversight and direction of the Council's activities.

Membership: Simon Brault, Barbara Burley (Chair), Susan Knight, David McKay and Rosemary Vodrey.

Investment Committee
The Investment Committee is responsible for overseeing and providing expert advice on the Council's investment portfolio, including recommending Board policies with respect to investments, hiring professional fund managers and monitoring their activities.

Membership: Luc LaRochelle, Anna Porter and the following external experts: Tania Willumsen (Chair), Mark Jenkins, Eric Kirzner, Ann Marshall, George Mavroudis and John Montalbano.

Other Bodies

Certain Board members also serve on other bodies: Susan Knight serves on the Executive Committee of the Canadian Commission for UNESCO; Luc LaRochelle serves on the Public Lending Right Commission; and Rosemary Vodrey serves on the Advisory Committee for Racial Equality in the Arts (REAC).

Proactive Disclosure

The disclosure of grants and contributions, travel and hospitality expense information of senior executives, contracts entered into for amounts over $10,000, the reclassification of positions and summary reports of completed access to information requests are posted on the Council's website.

Disclosure of Wrongdoing

In compliance with the Council's Policy on the Internal Disclosure of Wrongdoing in the Workplace, which is based on the requirements of the *Public Servants Disclosure Protection Act*, a quarterly report on the disclosure of wrongdoing in the workplace is provided to the Audit and Finance Committee. In 2012-13, there were no internal disclosures of wrongdoing in the workplace.

Remuneration

Board: $128,934.07 (fixed by Governor in Council)
Director/CEO: $210,600 - 247,700 (fixed by Governor in Council)
Executive positions: $104,600 - $154,300

Executive Management

At March 31, 2013, the Executive Management Group consisted of Robert Sirman, Director/CEO; Michelle Chawla, Corporate Secretary and Director, Strategic Initiatives; John Goldsmith, Director, Stakeholder Relations; Denyse Jomphe, Director, Human Resources; Tammy Scott, Director, Communications and Arts Promotion; Annie Valois, Director, Arts Disciplines; Pascale Legault, Chief Financial Officer, Finance and Administration (effective March 18, 2013); and Myriam Montrat, Secretary-General, Canadian Commission for UNESCO (effective February 11, 2013).

Notes: Carole Boileau was Acting Director, Finance and Administration until March 17, 2013. Robin Ghosh was Director, Finance and Administration until September 19, 2012. David Walden was Secretary-General, Canadian Commission for UNESCO until January 22, 2013.

Board Members

	Joseph L. Rotman, Chair Toronto, ON		Simon Brault, Vice-Chair Montréal, QC
	Barbara Burley St. Andrews, NB		Howard Jang Vancouver, BC
	Susan Mary (Dyer) Knight St. John's, NL		Luc LaRochelle Montréal, QC
	David McKay Fredericton, NB		Philip G. Ponting Calgary, AB
	Anna Porter Toronto, ON		Brenda Stehelin Whitehorse, YT
	Rosemary L. Vodrey Winnipeg, MB		

Board and Committee Meetings and Attendance
April 1, 2012 to March 31, 2013

	Board	Executive	Investment	Audit and Finance	Governance & Nominating
Total # of Meetings	6	3	4	8	5
Joseph L. Rotman, Chair	6	3			
Simon Brault, Vice-Chair	6	3		8	5
Barbara Burley	6	2/2			5
Howard Jang	6			6/7	
Susan Mary (Dyer) Knight	6				5
Luc LaRochelle	5/5		3/3	7/7	
David McKay	6				4/4
Philip G. Ponting	4/5			4/5	1/1
Anna Porter	6		4	8	
Brenda Stehelin	2/2				
Rosemary L. Vodrey	5/6	1/1			4/4

Notes: Committee compositions were changed effective May 29, 2012. Luc LaRochelle's first mandate ended June 17, 2012 and was renewed effective June 21 (attended June 19-21, 2012 Board meeting as a guest - not included in numbers above). Philip Ponting's mandate ended February 11, 2013. Brenda Stehelin was appointed November 22, 2012.

Financial Statements

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Canada Council for the Arts and all the information in this annual report are the responsibility of Management and have been approved by the Board.

The financial statements have been prepared by Management in accordance with Canadian public sector accounting standards. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. The financial statements include amounts based on Management's best estimates as determined through experience and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

The Canada Council maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the organization's assets are appropriately accounted for and safeguarded.

The Board is responsible for the management of the business and activities of the Canada Council. In particular, they are responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. They exercise this responsibility through the Audit and Finance Committee, which is composed of members who are not employees of the Canada Council. The Audit and Finance Committee meets with Management, the internal auditors and the Auditor General of Canada on a regular basis. The Committee reports its findings to the Board for consideration when approving the financial statements.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements of the Canada Council, and for issuing the report thereon.

June 26, 2013

Robert Sirman
Director and Chief Executive Officer

Pascale Legault, CPA, CA
Chief Financial Officer

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Canada Council for the Arts and the Minister of Canadian Heritage and Official Languages

Report on the Financial Statements

I have audited the accompanying financial statements of the Canada Council for the Arts, which comprise the statement of financial position as at 31 March 2013, and the statement of operations, statement of remeasurement gains and losses, statement of change in net financial assets and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

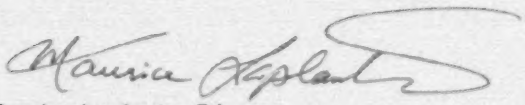
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canada Council for the Arts as at 31 March 2013, and the results of its operations, its remeasurement gains and losses, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Canada Council for the Arts that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Canada Council for the Arts Act* and the by-laws of the Canada Council for the Arts.



Maurice Laplante, CA
Assistant Auditor General
for the Auditor General of Canada

26 June 2013
Ottawa, Canada

Statement of Financial Position

as at March 31 (in thousands of dollars)	Actual 2013	Restated (Note3) Actual 2012
FINANCIAL ASSETS		
Cash equivalents (Note 4)	$ 197	$ 18
Accounts receivable	3,488	2,290
Derivatives (Note 5)	5	25
Portfolio investments (Note 6)	285,141	270,522
Total financial assets	**288,831**	**272,855**
LIABILITIES		
Bank indebtedness	1,347	1,581
Grants payable	26,984	27,760
Accounts payable and accrued liabilities	3,513	3,710
Deferred revenues	1,764	1,827
Derivatives (Note 5)	97	62
Employee future benefits (Note 8)	2,515	4,237
Deferred revenues - Externally restricted contributions (Note 9)	27,721	23,594
Total liabilities	**63,941**	**62,771**
NET FINANCIAL ASSETS	224,890	210,084
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 10)	2,339	2,156
Art Bank inventory (Note 11)	19,356	19,347
Musical instruments (Note 12)	1	1
Prepaid expenses	306	273
Total non-financial assets	**22,002**	**21,777**
ACCUMULATED SURPLUS (Note 13)	**$ 246,892**	**$ 231,861**
Accumulated surplus is comprised of:		
Accumulated surplus from operations	237,997	232,006
Accumulated remeasurement gains (losses)	8,895	(145)
ACCUMULATED SURPLUS	**$ 246,892**	**$ 231,861**

Contractual obligations and commitments (Note 18)

The accompanying notes and schedules form an integral part of the financial statements

APPROVED BY THE BOARD OF DIRECTORS

Chair

Vice-Chair

Statement of Operations

year ended March 31 (in thousands of dollars)	Budget 2013	Actual 2013	Restated (Note3) Actual 2012
Revenue			
Net investment income (Note 14)	$ 9,290	$ 12,296	$ 5,340
Net Art Bank income (loss) (Note 15)	6	(127)	(206)
Other revenue	1,319	1,734	2,013
Total revenue	**10,615**	**13,903**	**7,147**
Expenses			
Programs			
Grants (Schedule 1)	153,371	153,397	157,304
Administration (Schedule 2)	13,676	13,144	12,967
Services	6,693	5,304	5,894
	173,740	171,845	176,165
Canadian Commission for UNESCO (Note 16)	2,329	1,866	2,003
General administration (Schedule 2)	15,792	15,381	16,231
Total expenses	**191,861**	**189,092**	**194,399**
Annual deficit from operations before parliamentary appropriations	(181,246)	(175,189)	(187,252)
Parliamentary appropriations	181,261	181,180	180,958
ANNUAL SURPLUS (DEFICIT) FROM OPERATIONS	15	5,991	(6,294)
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF YEAR	232,006	232,006	238,300
ACCUMULATED SURPLUS FROM OPERATIONS, END OF YEAR	**$ 232,021**	**$ 237,997**	**$ 232,006**

Statement of Change in Net Financial Assets

year ended March 31 (in thousands of dollars)	Budget 2013	Actual 2013	Restated (Note3) Actual 2012
ANNUAL SURPLUS (DEFICIT) FROM OPERATIONS	$ 15	$ 5,991	$ (6,294)
Acquisition of tangible capital assets (Note 10)	(1,777)	(1,393)	(477)
Amortization of tangible capital assets (Note 10)	1,473	1,210	1,088
Acquisition of Art Bank inventory (Note 11)	-	(10)	(355)
Disposal of Art Bank inventory (Note 11)	-	1	167
	(304)	(192)	443
Acquisition of prepaid expenses	-	(306)	(273)
Use of prepaid expenses	-	273	272
	-	(33)	(1)
Net remeasurement gains (losses)	-	9,040	(678)
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(289)	14,806	(6,528)
NET FINANCIAL ASSETS, BEGINNING OF YEAR	210,084	210,084	216,612
NET FINANCIAL ASSETS, END OF YEAR	**$ 209,795**	**$ 224,890**	**$ 210,084**

The accompanying notes and schedules form an integral part of the financial statements.

Statement of Remeasurement Gains and Losses

year ended March 31 (in thousands of dollars)		Actual 2013		Actual 2012
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF YEAR	$	(145)	$	533
Unrealized gains (losses) attributable to:				
Derivatives		(40)		104
Portfolio investments		9,859		(6,597)
Amounts reclassified to the Statement of Operations:				
Derivatives		(104)		-
Portfolio investments		(675)		5,815
NET MEASUREMENT GAINS (LOSSES) FOR THE YEAR		9,040		(678)
ACCUMULATED REMEASUREMENT GAINS (LOSSES), END OF YEAR	**$**	**8,895**	**$**	**(145)**

Statement of Cash Flow

year ended March 31 (in thousands of dollars)		Actual 2013		Restated (Note3) Actual 2012
Operating Transactions				
Annual surplus (deficit) from operations	$	5,991	$	(6,294)
(Gains) losses from disposal of portfolio investments (Note 14)		(1,519)		8,243
Realized gains (losses) on change in derivatives fair value		(143)		-
Amortization of tangible capital assets (Note 10)		1,210		1,088
Disposal of Art Bank inventory (Note 11)		1		167
Increase in prepaid expenses		(33)		(1)
(Decrease) increase in employee future benefits		(1,722)		627
Income transferred to (from) Deferred revenues - Externally restricted contributions				
To (from) investment income (Note 9)		1,244		(7,007)
From other revenues (Note 9)		(363)		(520)
Net change in other non-cash items (Note 17)		(2,234)		762
Cash provided by operating activities		2,432		2,070
Capital Transactions				
Acquisition tangible capital assets (Note 10)		(1,393)		(477)
Acquisition Art Bank inventory (Note 11)		(10)		(333)
Cash used by capital activities		(1,403)		(810)
Investing Transactions				
Acquisition of portfolio investments		(19,480)		(118,751)
Disposal of portfolio investments		18,864		118,162
Cash used by investing activities		(616)		(589)
NET INCREASE IN CASH AND CASH EQUIVALENTS		413		671
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		(1,563)		(2,234)
CASH AND CASH EQUIVALENTS, END OF YEAR		**(1,150)**		**(1,563)**
Represented by:				
Cash equivalents (Note 4)		197		18
Bank indebtedness		(1,347)		(1,581)
	$	**(1,150)**	$	**(1,563)**

The accompanying notes and schedules form an integral part of the financial statements

Notes to the Financial Statements
March 31, 2013

1. AUTHORITY AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the *Canada Council Act* in 1957 and subsequently amended in 2001 by Bill C-40 to the *Canada Council for the Arts Act*, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the *Income Tax Act*. In accordance with section 85(1.1) of the *Financial Administration Act*, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of and the production of works in the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Program administration expenses represent the direct costs of program delivery. Program services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate and costs associated with the adjudication of grants. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canada Council for the Arts Act assigns the Council with the functions and duties for the Canadian Commission for UNESCO (the "Commission"). The Commission advises the Government of Canada on its relations with the United Nations Educational, Scientific and Cultural Organization (UNESCO). The Commission also fosters co-operation between Canadian organizations in civil society and UNESCO.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting
The Council considers itself to be an "other government organization". These financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Canadian Institute of Chartered Accountants ("CICA").

The Council's significant accounting policies are as follows:

Financial instruments
All financial instruments are initially measured at fair value. The following table identifies the Council's financial assets and liabilities and identifies how they are subsequently measured:

Financial asset or liability	Subsequent measurement
Cash equivalents	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Derivatives	Fair value
Bank indebtedness	Fair value
Grants payable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Cash equivalents
Cash equivalents represent short-term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value. Cash equivalents on the Council's Statement of Financial Position comprise units in a short-term pooled fund. Distributed income is recorded on an accrual basis and is recognized in the Statement of Operations under net investment income in the year in which it is earned.

Derivatives
Derivatives are recognized at fair value on the Statement of Financial Position. Derivatives with a positive (negative) fair value are reported as assets (liabilities). Unrealized changes in the fair value of derivatives are recognized on the Statement of Remeasurement Gains and Losses under derivatives in the year in which they occur, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions. Once realized, these gains and losses are recognized in the Statement of Operations. Purchases and dispositions of derivatives are recorded on the trade date.

Portfolio investments
Portfolio investments are reported at fair value. Unrealized changes in the fair value of portfolio investments are recognized in the Statement of Remeasurement Gains and Losses, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions. Once realized, the cumulative gain or loss previously recognized in the Statement of Remeasurement Gains and Losses are recorded in net investment income on an average cost basis for the year. The realized gains and losses on externally restricted contributions are recognized in accordance with the externally restricted contributions accounting policy. Purchases and dispositions of portfolio investments are recorded on the trade date. Management fees charged are expensed in the year they are incurred.

Tangible capital assets
Office equipment and leasehold improvements are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful lives of the assets as follows:

Office equipment	5 years
Leasehold improvements	remaining term of the lease

Art Bank inventory
The Art Bank inventory is carried at cost less accumulated amortization. The cost, less any residual value, is amortized using a straight line method over the estimated useful lives of these assets which are estimated to be 50 years.

Musical instruments
Musical instruments, which have cultural and historical value are recorded at nominal value in the Statement of Financial Position as a reasonable estimate of the future benefits associated with such assets cannot be made.

Employee future benefits

i) Pension benefits
Substantially all of the employees of the Council are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Council to cover current service cost. Pursuant to legislation currently in place, the Council has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Council.

ii) Severance benefits
Up to 2012, employees were entitled to severance benefits, as provided for under conditions of employment and the collective agreement. The costs of these benefits were accrued as the employees rendered the services necessary to earn them. The liability was calculated based on management's best estimates and assumptions, on the employee's salary and number of years of service as at March 31.

In February 2012, a new collective agreement was signed and the decision to terminate this benefit was made. The agreed calculation to determine the obligation was as follows:

All employees with 10 years or more of service as at June 30, 2012 shall be entitled to a severance payment equal to one week's pay for each complete year of continuous employment and, in the case of partial year of continuous employment, one week's pay multiplied by the number of days of continuous employment divided by 365, to a maximum of 28 weeks. All employees with less than ten years of services and more than one year of service as of June 30, 2012 shall be entitled to a severance payment equal to two week's pay. All part-time employees with less than 10 years of service as at June 30, 2012 shall be entitled to a severance equal to one week's pay.

The obligation is adjusted at year-end to reflect employees' actual salary level.

iii) Retiree's benefits

The Council provides extended health care and dental benefits to its current and retired employees. Retirees pay 50% of the extended health care premium and 100% of the dental premium. The Council accrues its obligations as the employees render the services necessary to earn these benefits. The cost of these benefits earned by employees has been estimated using the accrued benefit method (Unit Credit). The first estimated valuation of these benefits was as at March 31, 2012, and the first full valuation was completed as at March 31, 2013.

Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are amortized over the average remaining service period of active employees.

Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the expected average remaining service period of the employee groups.

Deferred revenues - Externally restricted contributions

Externally restricted income is recognized as revenue in the financial statements in the year in which the resources are used for the purpose or purposes specified. An externally restricted inflow, excluding original principal, received before this criterion has been met is reported as a liability until the resources are used for the purpose or purposes specified.

Endowment principal - Externally restricted contributions

Externally restricted contributions consist of endowments and restricted donations received by the Council that are required to be maintained intact. They are reported under Accumulated Surplus from Operations.

Reserve for excess investment income

This reserve represents the sum of excess investment income since the establishment of the Council in 1957 and is presented as a separate internal reserve within the accumulated surplus from operations. In years when net investment income exceeds the amount of net budgeted investment income, an amount may be transferred from the accumulated surplus from operations to the reserve for excess investment income. In years when net investment income is less than the amount of net budgeted investment income, an amount may be transferred to the accumulated surplus from operations from the reserve for excess investment income. These transfers are approved by the Board.

Revenue recognition

i) Parliamentary appropriations

Parliamentary appropriations are considered government transfers and are recognized as revenue in the year for which they are approved by Parliament. Parliamentary appropriations for specific projects are deferred and recognized on the Statement of Operations in the year in which the related expenses are incurred. Parliamentary appropriations are mainly used for operations.

ii) Contributions

The Council receives contributions that are externally restricted for specific purposes by the donors.

Externally restricted contributions that are to be held to perpetuity are recognized as revenue in the year in which they are received. The externally restricted contributions that are not held to perpetuity and realized and unrealized gains and losses for the associated externally restricted investment income, are recognized as a liability until the resources are used for their specified purpose, at which time the contributions are recognized as revenue.

Unrestricted contributions are recognized as other revenue in the year received or in the year the funds are committed to the Council if the amount can be reasonably estimated and collection is reasonably assured.

In-kind contributions consist mostly of donations of to the Art Bank inventory and are recorded at their fair value as a non-financial asset when they are received and as revenue under net Art Bank income.

iii) Art Bank rental revenues

Revenues generated from its inventory are recognized in the year in which services are provided. They are included in net Art Bank income (loss) on the Statement of Operations.

iv) Other revenues

Other revenues consist mainly of the cancellation in the current year of grants approved in previous years and hosting fees charged for services provided to a third party.

v) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the date of the Statement of Financial Position. Revenue and expense items are translated at exchange rates prevailing throughout the year. Unrealized foreign exchange gains and losses are recognized in the Statement of Remeasurement Gains and Losses, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions. Once realized, the cumulative gain or loss is recognized in net investment income.

Grants

Grants are considered to be a government transfer. They are recorded as an expense in the year for which they are budgeted and approved by the Board, authority to pay has been obtained through the Appropriation Act, and results communicated to the applicants.

Operating leases

The Council enters into operating leases for its office accommodation which are recorded on a straight-line basis over the term of the lease. Lease inducements are recorded as a reduction to the office accommodation expense on a straight line basis over the term of the lease.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting year. Employee-related liabilities, the estimated useful lives of tangible capital assets and the Art Bank inventory, the residual and appraised value of the working collection, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board.

3. RESTATEMENT OF ART BANK INVENTORY

Through the Art Bank, the Council owns an inventory to be rented to government and private sector offices and boardrooms. The objective is to create an inventory of works that will allow the Art Bank to achieve its goal of full cost recovery from rental revenues. As of April 1, 2010, the Council, in its transition to PSAB standards, wrote off the Art Bank inventory purchased or received in kind and presented it at a nominal value of $1,000. After further research, the Council has determined that this capital asset should have been recorded in accordance with CICA Handbook section PS 3150 - Tangible Capital Assets. Works of art held for rental to others and not intended to be preserved to perpetuity are to be recorded at cost or at fair value when received in kind.

Consequently, the 2012 opening accumulated surplus has been increased by $19,181,000 which represents the historical cost value of the Art Bank inventory determined as a tangible capital asset as of that date. The Art Bank inventory was added in the non-financial assets category in the financial position on April 1, 2011 and was accordingly increased by $19,181,000. The 2012 net Art Bank income (loss) previously reported has been restated to remove the purchases of works by $333,000 previously expensed and recognized disposal or contribution in kind of works by $167,000 with a net impact of reducing the income by $166,000. At March 31, 2012 the Art Bank inventory was increased by $166,000.

4. CASH EQUIVALENTS

The Council invests its cash in excess of daily requirements in a short-term pooled fund managed by State Street Global Advisors. All instruments held in the pooled funds are rated R1 (low) or A (low) or better as rated by a recognized bond rating agency. These funds are comprised of securities issued by different levels of government, chartered banks and corporate issuers. Except for instruments guaranteed by governments, no more than 10% of the short-term portfolio is invested with any one issuer. The Council's investment in the pooled fund was $197,000 at March 31, 2013 (2012 - $18,000).

5. DERIVATIVES

The use of derivatives is limited to foreign currency forward contracts. The Council currently uses foreign currency forward contracts that represent commitments to purchase or sell foreign currencies for delivery at a specific date in the future at a fixed rate to manage its foreign currency exchange risk. These contracts are typically for a one-month period.

The Council enters into foreign currency forward contracts to manage its exposure to foreign currency exchange risk on the non-Canadian dollar denominated portion of its investment portfolio, except for the emerging market component which was unhedged and represented approximately 0.8% (2012 - 0.9%) of the investment portfolio. The hedge strategy allows hedging of the designated assets within a range of 30% to 70% of the foreign exposure.

Foreign currency forward contracts have notional amounts that serve as points of reference for calculating payments and are not the actual amounts that are exchanged. These amounts are not recorded on the Statement of Financial Position, as they do not represent their fair value.

As at March 31, 2013, the Council held foreign currency forward contracts, for settlement on May 2, 2013, with a total notional amount of $40,810,000 (2012 - $40,721,000) as follows:

(in thousands of dollars)

	2013			2012		
Currency	Forward rate	Notional amount[1]	Fair value	Forward rate	Notional amount[1]	Fair value
US Dollar	0.984	17,289	3	1.000	18,841	15
Euro	0.766	6,898	(34)	0.751	6,334	(14)
Switzerland Francs	0.931	5,718	(38)	0.904	4,694	(17)
British Pound	0.648	4,810	(71)	0.676	4,516	(24)
Japanese Yen	92.466	2,457	2	82.271	3,006	9
Other currencies - assets	-	-	-	4.510	1,489	1
Other currencies - liabilities	4.389	3,638	(4)	4.440	1,841	(7)

1. The notional amount represents the Council's exposure to these currencies as per its dynamic hedging strategy.

The fair value of outstanding foreign exchange forward contracts reflect the potential gain/loss if trading were to take place on March 31, 2013. The realized gain of $872,000 on foreign currency forward contracts that matured on March 31, 2013, but were only settled after the date of the statement of financial position are recorded with the accounts receivable.

The net investment income includes a net foreign currency gain for the year of $680,000 (2012 loss - $621,000).

6. PORTFOLIO INVESTMENTS

(in thousands of dollars)	2013 Cost	Unrealized losses	Unrealized gains	Fair value		2012 Cost	Fair value	
	$	$	$	$	%	$	$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	102,951	-	9,075	112,026	49.4	100,990	99,787	46.3
Fixed income	73,316	1,267	-	72,049	31.7	73,311	72,448	33.6
Alternatives	10,670	-	2,821	13,491	6.0	20,017	21,856	10.1
Money market	15,266	-	-	15,266	5.8	5,589	5,589	2.6
Real estate	8,336	-	1,013	9,349	4.1	8,666	9,267	4.3
Infrastructure	8,464	1,636	-	6,828	3.0	7,208	6,757	3.1
	217,003	2,903	12,909	227,009	100.0	215,681	215,704	100.0
Killam Fund								
Pooled funds								
Equity	26,312	-	2,319	28,631	49.3	25,785	25,503	46.6
Fixed income	18,607	339	-	18,268	31.4	18,606	18,370	33.5
Alternatives	2,718	-	718	3,436	5.9	5,149	5,618	10.3
Money market	3,198	-	-	3,198	5.5	737	737	1.3
Real estate	2,235	-	284	2,519	4.3	2,318	2,487	4.5
Infrastructure	2,580	500	-	2,080	3.6	2,243	2,103	3.8
	55,650	839	3,321	58,132	100.0	54,838	54,818	100.0
Total investments	**272,653**	**3,742**	**16,230**	**285,141**		**270,519**	**270,522**	

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired as at March 31, 2013.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their do nation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 7.99% (2012 - 8.15%) of that Fund with a total fair value of $18,138,000 (2012 - $17,580,000). The total fair value of the externally restricted investment including the Killam Fund is $76,270,000 (2012 - $72,398,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds and in limited partnership units of four real estate funds and two infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate concentration risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks adopted by the Board in March 2013. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Actual Market Value	Minimum	Benchmark	Maximum
Canadian equities	10%	5%	10%	15%
Global equities	39%	25%	35%	45%
Fixed income	32%	25%	35%	40%
Alternatives	6%	5%	10%	15%
Real estate	4%	0%	5%	7%
Infrastructure	3%	0%	5%	7%
Money market	6%	0%	0%	15%

The money market asset class includes short term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of $16,464,000 (2012 - $6,326,000). For the year ended March 31, 2013, these funds earned a return of 1.27% (2012 - 1.31%) and the underlying investments had an average weighted term to maturity of 25 days (2012 - 31 days).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock exchange index. The global equities are measured against the returns of the Morgan Stanley Capital International World Hedge Index. Investments in the fixed income pooled fund are comprised of Canadian Government and corporate bonds with a minimum credit quality of BBB or equivalent rated by a recognized bond rating agency. The fixed income fund is intended to replicate the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the Scotia Capital 91-day T-bill plus 20%. The assets included in the real estate funds are commercial real estate properties in Canada and the United States. These investments are measured against the returns of the Investment Property Databank for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. The infrastructure funds include two portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

7. FINANCIAL RISKS AND FAIR VALUE

At March 31 the measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

(In thousands of dollars)

Financial assets and liabilities and classifications	Measurement categories	2013 Carrying amount and fair value ($)	2012 Carrying amount and fair value ($)
Cash equivalents	Fair value	197	18
Accounts receivable	Amortized cost	3,488	2,290
Derivatives net	Fair value	(92)	(37)
Portfolio Investments[1]	Fair value	285,141	270,522
Bank indebtedness	Fair value	1,347	1,581
Grants payable	Amortized cost	26,984	27,760
Accounts payable and accrued liabilities	Amortized cost	3,513	3,710

1 The detailed fair value for the investments is listed in Note 6.

a) Establishing fair value

The carrying value of accounts receivable, grants payable and accounts payable and accrued liabilities approximates their fair values due to their short-term maturity.

The fair value of derivative instruments is calculated using the current market spot and the forward exchange rates at year end (see Note 5).

The fair values of the investments are determined as follows:

- Pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with non-observable data. The independently audited appraisals are obtained annually.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with non-observable data.

b) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

Financial assets at fair value as at March 31

(in thousands of dollars)	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents	-	197	-	197	-	18	-	18
Derivatives	5	-	-	5	25	-	-	25
	5	197	-	202	25	18	-	43
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	112,026	-	112,026	-	99,787	-	99,787
Fixed Income	-	72,049	-	72,049	-	72,448	-	72,448
Alternatives	-	-	13,491	13,491	-	-	21,856	21,856
Money Market	-	13,266	-	13,266	-	5,589	-	5,589
Real Estate	-	-	9,349	9,349	-	-	9,267	9,267
Infrastructure	-	-	6,828	6,828	-	-	6,757	6,757
Killam Fund								
Pooled Funds								
Equity	-	28,631	-	28,631	-	25,503	-	25,503
Fixed Income	-	18,268	-	18,268	-	18,370	-	18,370
Alternatives	-	-	3,436	3,436	-	-	5,618	5,618
Money Market	-	3,198	-	3,198	-	737	-	737
Real Estate	-	-	2,519	2,519	-	-	2,487	2,487
Infrastructure	-	-	2,080	2,080	-	-	2,103	2,103
		247,438	37,703	285,141	-	222,434	48,088	270,522
Total	5	247,635	37,703	285,343	25	222,452	48,088	270,565

Financial liabilities at fair value as at March 31

(in thousands of dollars)	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Bank indebtedness	1,347	-	-	1,347	1,581	-	-	1,581
Derivatives	97	-	-	97	62	-	-	62
Total	1,444	-	-	1,444	1,643	-	-	1,643

During the year, there were no significant transfers of amounts between Level 1 and 2.

The following table reconciles the changes in fair value of financial instruments classified as Level 3 during the year:

(in thousands of dollars)	2013				2012			
	Alternatives fund	Real estate funds	Infrastructure funds	Total	Alternatives fund	Real estate funds	Infrastructure funds	Total
Canada Council Endowment and Special Funds								
Opening balance	21,856	9,267	6,757	37,880	21,589	8,049	6,694	36,332
Total gains (losses)								
recognized in re-measurement statement	903	379	(1,090)	192	245	295	58	598
recognized in externally restricted contributions	78	33	(95)	16	22	26	5	53
Purchases	-	-	1,256	1,256	-	1,043	-	1,043
Sales	(9,346)	(330)	-	(9,676)	-	(146)	-	(146)
Closing balance	13,491	9,349	6,828	29,668	21,856	9,267	6,757	37,880
Killam Fund								
Opening balance	5,618	2,487	2,103	10,208	5,550	2,154	2,082	9,786
Total gains (losses)								
recognized in externally restricted contributions	250	114	(360)	4	68	95	21	184
Purchases	-	-	337	337	-	275	-	275
Sales	(2,432)	(82)	-	(2,514)	-	(37)	-	(37)
Closing balance	3,436	2,519	2,080	8,035	5,618	2,487	2,103	10,208

c) Risk management

The Council is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (price risk, interest rate risk and currency risk). The long term goal of the Council's investment policy is to produce long term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital. This policy allows the use of certain derivative financial instruments.

In order to manage risk, the Council invests in a diversified portfolio that is managed by professional investment managers. The Council's investments are guided by a *Statement of Investment Policies and Goals* which is approved by the Board and reviewed on an annual basis. The Council is assisted in the oversight and management of its portfolio by an Investment Committee that includes independent experts with experience in both the investment field and the asset classes being invested in. In addition, the Council uses the services of an independent investment consultant to assist the Investment Committee in its work. As the investment markets continue to evolve, the Investment Committee recommends adjustments to the asset mix to reduce the overall risk of the portfolio to an acceptable level.

i. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Council.

At the Statement of Financial Position date, financial assets exposed to credit risk include cash equivalents, portfolio investments, accounts receivable and derivatives. The carrying amounts of these financial assets represent the maximum credit risk exposure at the Statement of Financial Position date.

Through its investments in units of equity, fixed income and alternatives pooled funds and in limited partnership units of four real estate funds and two infrastructure funds, the Council is indirectly exposed to the credit risk of the underlying investments of those funds. These risks are managed at the investment manager level. Their objectives are to invest in high quality financial instruments with creditworthy counterparties, by limiting the amount that can be invested in any one counterparty and by using other limits set out in the Council's investment policy.

A significant portion of the Council's accounts receivables are due from the Government of Canada and, as such, have low credit risk. The Council mitigates credit risk through monitoring of the outstanding balances. As at March 31, 2013, there were no significant amounts past due and no impairment losses have been recognized.

The credit risks on derivatives are managed by contracting only with creditworthy counterparties that must satisfy two out of the three following ratings from external credit rating agencies: A3 for Moody's, A- for Standard & Poor's or A- for Fitch/IBCA.

ii. Liquidity risk

Liquidity risk is the risk that the Council will not be able to meet its financial obligations as they fall due.

The Council receives most of its revenue by way of parliamentary appropriation from the Government of Canada. That revenue is temporarily invested in the short-term pooled fund until it is required.

The objectives of the Council with respect to the management of liquidity is to ensure that the capital value of its short-term pooled funds is preserved, that the investments are sufficiently liquid and that investment income is distributed in cash when possible.

The liquidity available from the short-term funds and portfolio investments ensures that the Council is able to meet its obligations and commitments. The majority of the investment portfolio can be redeemed within three days. As well, the permitted and prohibited investments are governed by Board-approved short-term and long-term investment policies which ensure that the liquidity risk is minimized.

The following table presents a maturity analysis based on historical data for the Council's financial assets and liabilities as of March 31:

(in thousands of dollars)	2013 Total	No fixed maturity	Less than 3 years	2012 Total	No fixed maturity	Less than 3 years
Financial Assets						
Cash equivalents	197	-	197	18	-	18
Accounts receivable	3,488	-	3,488	2,290	-	2,290
Derivatives	5	-	5	25	-	25
Portfolio investments	285,141	285,141	-	270,522	270,522	
	288,831	285,141	3,690	272,855	270,522	2,333
Financial Liabilities						
Bank indebtedness	1,347	-	1,347	1,581	-	1,581
Grants payable	26,984	-	26,984	27,760	-	27,760
Accounts payable and accrued liabilities	3,513	-	3,513	3,710	-	3,710
Derivatives	97	-	97	62	-	62
	31,941	-	31,941	33,113	-	33,113

In the table above, investments are assets with no fixed maturity. The Council has an investment Policy that enables it to withdraw amounts, during the year, from its investment portfolio valued up to 4.0% (2012 - 4.5%) of the previous three-year average market value using balances at September 30, if needed.

iii. Market risks

The Council's activities are primarily exposed to price risk, interest rate risk and currency risk.

The investment managers' directives are to manage the Council's market risks on a daily basis in accordance with the Council's policies. The Council's overall market positions are monitored on a quarterly basis by the Board of Directors and the Investment Committee.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Council is exposed to market price risk arising from its investments in units of equity and alternative pooled funds and in limited partnership units of four real estate funds and two infrastructure funds.

Price sensitivity

The following details the Council's portfolio sensitivity to a 7.0% increase or decrease in the market prices, with 7.0% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of a reasonably possible change in market prices.

The sensitivity rate is determined using the 4-year historical standard deviation for the total fund as determined by the investment advisor.

At March 31, 2013, if market prices had a 7.0% (2012 - 10.5%) increase or decrease with all other variables held constant, the increase or decrease in remeasurement gains and losses and deferred revenues - externally restricted contributions for the year would have been a total of $20,041,000 (2012 - $28,471,000) due to the increase or decrease in the fair value of financial assets measured at fair value.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The interest rate exposure of the Council arises from its interest bearing assets. The Council's cash produces amounts on deposit with a financial institution that earns interest at market rates. The objective of the Council is to manage its exposure to the interest rate risk of its cash by maximizing the interest income earned on excess funds while maintaining the minimum liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash do not have a significant impact on the Council's results of operations.

The Council's investments in short-term pooled funds, fixed income pooled fund and alternative pooled funds are indirectly affected by movements in their fair value as a result of fluctuations in market interest rates. The impact of the fluctuation cannot be assessed since Council holds units of pooled funds and not the underlying assets.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

At the Statement of Financial Position date, the Council's only monetary financial instruments exposed to foreign currency were the net derivatives liability value at $92,000 (2012 - $37,000). Given the small size of the foreign currency exposure compared with the total assets of the Council, currency risk is not considered significant.

8. EMPLOYEE FUTURE BENEFITS

a) Pension benefits

Substantially all of the employees of the Council are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Council. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was 1.64 (1.74 for the prior year). Total contributions of $2.2 million (2012 - $2.1 million) were recognized as expense in the current year.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2% of pensionable service times the average of the best five consecutive years of earnings. The benefits are indexed to inflation.

(in thousands of dollars)	2013	2012
Employer's contributions	$ 2,170	$ 2,125
Employees' contributions	1,225	1,144

b) Severance benefits

The Council provided severance benefits to its employees based on years of service and final salary. These benefits were not pre-funded and thus had no assets, resulting in a plan deficit equal to the accrued benefit obligation. These benefits no longer accrue as per the new collective agreement signed in February 2012. The employees were given the option to either cash out their severance benefits or to wait until their departure. The obligation is adjusted at year-end to reflect employees' actual salary level. The total obligation will be paid from future appropriations or other sources of revenue. Information about the plan benefits, measured as at March 31, is as follows:

(in thousands of dollars)	2013	2012
Accrued benefit obligation, beginning of year	$ 2,845	$ 2,291
Current service cost including amendments	8	615
Benefits paid during the year	(1,802)	(61)
Accrued benefit obligation, end of year	**$ 1,051**	**$ 2,845**

c) Retirees benefits

The Council has defined post retirement benefit plans covering certain employee groups. These plans provide extended health and dental benefits to retired employees. Retirees pay 50% of the extended health care premium and 100% of the dental premium. In 2011-12, the Council obtained its first estimated valuation based on information available at that time and management best estimates on some assumptions. In 2012-13, the Council obtained a full actuarial value as at March 31, 2013.

(in thousands of dollars)	2013	2012
Accrued benefit obligation, beginning of year	$ 1,392	$ 1,319
Current service cost	67	65
Interest cost	49	46
Benefits paid	(116)	(101)
Participant contributions	72	63
Actuarial loss	1,803	-
	3,267	1,392
Unamortized actuarial losses	(1,803)	-
Accrued benefit obligation, end of year	**$ 1,464**	**$ 1,392**

The actuarial loss arising from the changes in assumptions will be amortized over the expected average remaining service period of the employee group which is fourteen years.

The significant actuarial assumptions adopted in estimating the accrued benefit obligations and net benefit costs are as follows:

	2013	2012
Discount rate for calculation of net benefit costs	3.5%	3.5%
Discount rate for calculation of accrued benefit obligation	2.5%	3.5%
Dental costs rate increase	4.0%	4.0%
Initial Health care cost trend rate increase - Prescription drugs	8.0%	8.0%
Ultimate health care cost trend rate	4.0%	4.0%
Year ultimate rate reached	2023	2020

9. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of $37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 13).

(in thousands of dollars)	2013	2012
Balance, beginning of year	$ 23,594	$ 26,349
Transferred from (to) investment income (Note 14)		
Net investment income	3,696	717
Use of funds	(2,452)	(2,719)
	1,244	(2,002)
Transfer to other revenues	(363)	(520)
Unrealized gains (losses) on portfolio investment	3,551	(2,701)
Unrealized gains (losses) on derivatives	(15)	40
Reclassified to statement of operations - portfolio	(250)	2,428
Reclassified to statement of operations - derivatives	(40)	-
Balance at end of year	**$ 27,721**	**$ 23,594**

The unrealized gains and losses on portfolio investment and derivatives are related to the change in fair value of those assets from the previous year.

10. TANGIBLE CAPITAL ASSETS

(in thousands of dollars)	Office equipment	Leasehold improvements	Total
Cost			
Opening balance at April 1, 2012	$ 4,698	$ 5,404	$10,102
Acquisitions	1,093	300	1,393
Write-downs	(163)	-	(163)
Closing balance at March 31, 2013	**$ 5,628**	**$ 5,704**	**$11,332**
Accumulated Amortization			
Opening balance at April 1, 2012	$ 3,321	$ 4,625	$ 7,946
Amortization expense	757	453	1,210
Write-downs	(163)	-	(163)
Closing balance at March 31, 2013	**$ 3,915**	**$ 5,078**	**$ 8,993**
Net carrying amount at March 31, 2012	$ 1,377	$ 779	$ 2,156
Net carrying amount at March 31, 2013	**$ 1,713**	**$ 626**	**$ 2,339**

11. ART BANK INVENTORY

(in thousands of dollars)	2013	2012
Opening balance	$ 19,347	$ 19,181
Acquisitions	10	333
Disposals	(1)	(167)
Closing balance	**$ 19,356**	**$ 19,347**

The Council's Art Bank is the largest collection of contemporary Canadian art in Canada. It includes over 17,500 paintings, sculptures, drawings, photographs and prints by over 3,147 artists. The Art Bank rents its inventory to interested parties and currently has over 3,500 (2012 - 4,100) works on rental to federal government departments and agencies, associations, hospitals, schools, municipalities and private corporations.

Independent Art appraisers have estimated the appraised value of the Art Bank inventory at $71 million as of March 31, 2013 ($71 million - 2012).

The Council insures the Art Bank inventory for its estimated appraised value.

12. MUSICAL INSTRUMENTS

The Council created the Musical Instrument Bank in 1985, and it currently owns a fine cello bow and eight quality musical instruments. In addition, the Council manages eleven instruments on loan, nine from anonymous donors and two from two other donors.

Agreements are signed with the individuals to whom the instruments are loaned. Those agreements include clauses that stipulate how the musical instruments are to be handled in order to safeguard them. The Council insures the musical instruments for their appraised value.

13. ACCUMULATED SURPLUS

(in thousands of dollars)	2013		2012	
Accumulated surplus from operations				
Endowment - original contribution		$ 50,000		$ 50,000
Endowment principal – Externally restricted contributions		37,569		37,569
Reserve for excess investment income				
Balance at beginning of the year	118,445		121,445	
Appropriated from (to) the accumulated surplus during the year	5,000		(3,000)	
Balance at end of the year		123,445		118,445
Surplus				
Balance at beginning of the year	25,992		29,286	
Appropriated (to) from the reserve for excess investment income during the year	(5,000)		3,000	
Surplus (deficit) for the year	5,991		(6,294)	
Balance at end of the year		26,983		25,992
Total accumulated surplus from operations		237,997		232,006
Accumulated remeasurement gains (losses)				
Balance at beginning of the year	(145)		533	
Change in fair value	9,040		(678)	
Balance at end of the year		8,895		(145)
Balance of accumulated surplus at end of year		**$ 246,892**		**$ 231,861**

Included in accumulated surplus is the original contribution by the Government of Canada of $50 million, which constituted a government transfer ("Endowment Fund") when the Council was established in 1957.

14. NET INVESTMENT INCOME

(in thousands of dollars)	2013	2012
Gains (losses) from disposal of portfolio investments	$ 1,519	$ (8,243)
Income transferred (to) from deferred revenues - Externally restricted contributions (Note 9)	(1,244)	2,002
Net gains (losses) on derivatives	680	(621)
Interest and dividend income	12,695	13,677
Investment portfolio management costs	(1,354)	(1,475)
	$ 12,296	**$ 5,340**

15. NET ART BANK INCOME (LOSS)

(in thousands of dollars)	2013	2012
Rental revenue	$ 1,465	$ 1,716
Other income	180	193
Disposal of Art Bank inventory	(1)	(167)
Administration expense	(1,744)	(1,911)
Amortization of other capital assets	(27)	(27)
	$ (127)	**$ (206)**

16. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	2013	2012
Program expenses	$ 1,046	$ 692
Program - contributions received	(503)	(40)
Administration expense	1,323	1,351
	$ 1,866	**$ 2,003**

Program expenses represent mainly the costs associated with the Commission's activities at national and international meetings related to education, science and culture. These costs are offset by contributions received from other organizations partnering with the Commission on these activities. Administration expenses represent the direct costs of delivering the Commission's programs.

17. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	2013	2012
(Increase) decrease in accounts receivable	$ (1,198)	$ 400
(Decrease) increase in grants payable	(776)	1,833
Decrease in accounts payable and accrued liabilities	(197)	(1,190)
Decrease in deferred revenues	(63)	(281)
Net change	**$ (2,234)**	**$ 762**

18. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

a) Grants

Payments of grants extending into future years are subject to the provision of funds by Parliament. Future year grants commitments approved prior to March 31, 2013 amounted to $82,573,000 (2012 - $97,653,000). The future payments of grant commitments as of March 31, 2013 are as follows:

(in thousands of dollars)	
2014	$ 52,007
2015	17,249
2016	13,317

b) Rent

The Council is party to long-term operating leases with respect to rental accommodation. Future year payment related to operating leases as of March 31, 2013 amounted to $ 96,528,000 (2012 - $101,114,000). The future payments of operating leases as of March 31, 2013 are as follows:

(in thousands of dollars)	
2014	$ 4,580
2015	4,514
2016	4,582
2017	4,626
2018	4,672
2019-2034	73,554

c) Investment commitments

The Council has signed agreements with real estate and infrastructure investment managers and committed capital in limited partnership funds. Because it takes time for those funds to be fully invested, the balance of committed capital not yet drawn at March 31, 2013 is $5,124,000 (2012 - $6,158,000). The outstanding balance of committed capital is currently invested in short term pooled funds.

d) Other commitments

The Council entered into various contracts during the year creating commitments of payment to future years.

In 2012-13, Council signed a contract to modify its client relationship management system over the next two years. The outstanding balance of the committed funds for this project at March 31, 2013 is $513,000.

In 2012-13, the Council also committed a capital budget amount of $5.3 million for the construction of its office space at the new location at 150 Elgin. The Council will receive a lease inducement, as agreed in the lease contract, to offset these capital expenditures which will be amortized over 20 years, the term of the new lease.

19. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year, the Council incurred grant and other expenses totalling $416,000 (2012 – $190,000) and recorded rental revenues for the Art Bank inventory, contributions and other revenues totalling $1,178,000 (2012 - $1,389,000) with related parties.

As at March 31, the Council recorded the following amounts on the statement of Financial Position for transactions with related parties:

(in thousands of dollars)	2013	2012
Accounts receivable	$ 289	$ 320
Grants payable	255	-
Accounts payable and accrued liabilities	189	405
Deferred revenues	429	362

20. COMPARATIVE FIGURES

Certain 2012 figures have been reclassified to conform to the presentation adopted in 2013.

Schedule I – Grant Expenses by Section

(in thousands of dollars)

	2013	2012
Arts Programs		
Music	$ 27,910	$ 28,092
Theatre	26,520	26,671
Writing and Publishing	24,343	24,251
Visual Arts	21,069	21,225
Dance	18,478	18,550
Media Arts	14,775	16,706
Inter-Arts	2,623	2,656
Audience and Market Development	2,152	2,083
Equity	1,521	1,656
Aboriginal Arts	1,315	1,296
Alberta Creative Development		999
Other	968	1,015
Public Lending Right	9,771	9,941
Killam Program		
Killam Research Fellowships	910	1,050
Killam Prizes	500	500
Other Prizes and Awards		
Molson Prizes	200	100
Victor Martyn Lynch-Staunton Awards	105	105
Walter Carsen Prize	30	50
John G. Diefenbaker Award		95
Other prizes and awards < $50,000	207	265
	$ 153,397	$ 157,304

Schedule II – Administration Expenses

(in thousands of dollars)

	2013			2012
	Programs	General Administration	Total	Total
Salaries	$ 9,543	$ 6,587	$ 16,130	$ 15,368
Employee benefits	2,459	1,140	3,599	4,534
Office accommodation	33	3,985	4,018	3,949
Professional and special services	350	927	1,277	1,692
Amortization	-	1,183	1,183	1,061
Staff travel	562	149	711	853
Printing, publications and duplicating	23	415	438	500
Information management	5	344	349	387
Communications	90	179	269	316
Meeting expenses including members' honoraria	72	235	307	311
Office expenses and equipment	4	223	227	204
Miscellaneous	3	14	17	23
	$ 13,144	$ 15,381	$ 28,525	$ 29,198